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MEETING

STATE OF CALIFORNIA

INTEGRATED WASTE MANAGEMENT BOARD

SPECIAL WASTE AND MARKET DEVELOPMENT COMMITTEE

JOE SERNA, JR., CALEPA BUILDING

1001 I STREET

2ND FLOOR

SIERRA HEARING ROOM

SACRAMENTO, CALIFORNIA

MONDAY, AUGUST 12, 2002

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JAMES F. PETERS, CSR, RPR  
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PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

APPEARANCES

COMMITTEE MEMBERS

Steven R. Jones, Chairperson

Dan Eaton

Michael Paparian

David A. Roberti

BOARD MEMBERS

Jose Medina

STAFF

Mark Leary, Executive Director

Terry Jordan, Deputy Director

Kathryn Tobias, Chief Counsel

Patty Wohl, Deputy Director

Shirley Willd-Wagner, Deputy Director

Martha Gildart, Supervising Waste Management Engineer

Don Dier

Kathy Frevert

Albert Johnson

Jim La Tanner

Pat McDermott

Diane Nordstrom

Stacey Patenaude

Kristen Yee

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1 PROCEEDINGS

2 CHAIRPERSON JONES: Good afternoon. And welcome  
3 to the August 12th meeting of the Special Waste and Market  
4 Development Committee meeting.

5 Anybody that's got cell phones, if you could turn  
6 them off or put them on vibrate, so we don't get the  
7 meeting disrupted, we would appreciate it.

8 And then anybody that intends to speak, there are  
9 speaker slips in the back of the room that you can fill  
10 out and bring up to Ms. Bakulich, and she will get them to  
11 us so you can speak.

12 Would you call the roll, please.

13 SECRETARY BAKULICH: Eaton?

14 COMMITTEE MEMBER EATON: Here.

15 SECRETARY BAKULICH: Paparian?

16 COMMITTEE MEMBER PAPARIAN: Here.

17 SECRETARY BAKULICH: Roberti?

18 Jones?

19 CHAIRPERSON JONES: Here.

20 Senator Roberti will join us in a little bit.

21 He's going to be ending his tenure here at the Board, and  
22 has to take care of some administrative issues today. But  
23 he will be joining us here pretty shortly.

24 All right. Any ex partes?

25 COMMITTEE MEMBER EATON: Up to date. Thank you.

1 CHAIRPERSON JONES: Mr. Paparian?

2 COMMITTEE MEMBER PAPARIAN: I'm up to date.

3 CHAIRPERSON JONES: As am I.

4 Now, I'm going to -- What are we doing first?

5 Are we doing Waste Prevention and Market Development?

6 DEPUTY DIRECTOR WOHL: Right.

7 CHAIRPERSON JONES: Okay. Patty Wohl, your  
8 report, please.

9 DEPUTY DIRECTOR WOHL: Okay. Patty Wohl, Deputy  
10 from the Waste Prevention and Market Development Division.

11 I'm actually -- given our tight timeframe, I'm  
12 going to skip the Deputy Director's report and move right  
13 into Agenda Item B, which is Item 11 in your Board book.

14 This is consideration of allocation and a revised  
15 scope of work for the Sustainable Building Technical  
16 Assistance Service Contract for Fiscal Year 2002-2003.  
17 And just as a reminder, this is the same scope of work  
18 with just a minor modification that Kathy's going to talk  
19 a little bit about. We had a problem, an anomaly with the  
20 scoring, and we had to cancel the contract last fiscal  
21 year. And we are bringing it forward to you in August,  
22 ahead of the rest of the allocation items so we can get  
23 back on track and get it moving again.

24 So with that introduction, I'd like to introduce  
25 Kathy Frevert.

1 SENIOR INTEGRATED WASTE MANAGEMENT SPECIALIST

2 FREVERT: Hi. I'm Kathy Frevert, a Senior Integrated  
3 Waste Management Specialist in Waste Prevention and Market  
4 Development.

5 Good afternoon, Chairman Jones and Committee  
6 Members.

7 This agenda item has two main parts, one being  
8 the allocation, which Patty touched on, and the other part  
9 being the scope of work. And that's what I'm going to  
10 focus on right now.

11 We have a revised scope of work, which is  
12 Attachment 1. And it is essentially the same scope of  
13 work that was approved by the Board in January 2002,  
14 except it has some additional language on the tire-derived  
15 products and a few minor edits.

16 As compared to the previously approved scope of  
17 work, the current revised scope of work has additional  
18 text concerning the research and product development of  
19 tire-derived building products.

20 Why did we make this revision? It became  
21 apparent that many bidders were focused on the collection  
22 of tires for recycling rather than the market development  
23 activities of incorporating the tire-derived products into  
24 construction projects. For this reason we added language  
25 to make it clear our need is for product development



1 related activities, that is, closing the loop and getting  
2 the recycled content products in projects.

3           Some of these product development activities may  
4 include the development of specifications or tweaking  
5 existing specifications, and testing to make sure they are  
6 appropriate.

7           Additionally, staff added a task to identify  
8 potential tire-derived applications in construction  
9 projects and to develop a list of projects that could  
10 utilize the tire-derived products. This will support the  
11 Board's sustainable building contracts for local and State  
12 governments.

13           So in conclusion, we have to rebid this contract.  
14 It provides an opportunity to make a few improvements and  
15 enhance the tire-derived aspects of the scope of work.

16           And we will gladly address any questions you may  
17 have.

18           CHAIRPERSON JONES: Questions from the members?

19           Mr. Paparian.

20           COMMITTEE MEMBER PAPARIAN: I'll move Resolution  
21 2002-461.

22           COMMITTEE MEMBER EATON: Second.

23           CHAIRPERSON JONES: We've got a motion by Mr.  
24 Paparian, a second by Mr. Eaton.

25           Would you call the roll.

1 SECRETARY BAKULICH: Eaton?

2 COMMITTEE MEMBER EATON: Aye.

3 SECRETARY BAKULICH: Paparian?

4 COMMITTEE MEMBER PAPARIAN: Aye.

5 SECRETARY BAKULICH: Jones?

6 CHAIRPERSON JONES: Aye.

7 Put this on the consent calendar?

8 COMMITTEE MEMBER PAPARIAN: Yes.

9 CHAIRPERSON JONES: Or it's fiscal, so it will be  
10 on the fiscal consensus as a 3-0.

11 Thank you.

12 DEPUTY DIRECTOR WOHL: Okay. And then the next  
13 two agenda items are loans. And just as an intro, for  
14 Fiscal Year 2002-3 the RMDZ loan program has a budget of  
15 \$10 million, of which we have -- the Board has already  
16 approved \$2,950,000.

17 Today the Board will be considering two loans  
18 totaling \$305,000. If these loans are passed, then there  
19 will remain approximately \$6.7 million in the subaccount  
20 for new applications.

21 Agenda Item C is consideration of the Recycling  
22 Market Development Revolving Loan program application for  
23 work training center for the Handicapped, Inc.

24 And Jim La Tanner will present this item and the  
25 next agenda item.

1 MR. LA TANNER: Good morning, Board Members.

2 Agenda item C, the Work Training Center for the  
3 Handicapped, a nonprofit organization, is requesting an  
4 RMDZ loan of \$34,000 to purchase equipment for the new  
5 manufacturing plant. The project is located in Oroville,  
6 California, within the Oroville RMDZ.

7 The company currently has a 10,000 square foot  
8 wood workshop facility that manufactures various wood  
9 products such as shipping containers, pallets, and custom  
10 boxes.

11 The loan request -- the Center's requested this  
12 loan to finance the purchase of a wood shredder. And the  
13 project will also include installation of electrical and  
14 some working capital.

15 The primary feedstock is from the current  
16 operations of one of their facilities called the Feather  
17 River Industries, which is manufacturing. They're going  
18 to take the excess wood and chip and grind it to make wood  
19 waste. And the end users consists of a long list,  
20 including California Department of Transportation, Pacific  
21 Oroville Power, Inc., landscapers, et cetera.

22 As a result of this loan, there will be 100  
23 additional tons per year diverted from California  
24 landfills, with an addition of 6 to 10 jobs.

25 The Loan Committee met on August 8th and approved

1 the loan as presented without any question.

2 Staff recommends approval of resolution 2002-460  
3 in the amount of \$34,000.

4 CHAIRPERSON JONES: Thanks, Mr. La Tanner.

5 Any questions, Members?

6 COMMITTEE MEMBER EATON: No. I'll move that we  
7 adopt Resolution 2002-460, approval of the loan for the  
8 work training center for the Handicapped, Inc.

9 COMMITTEE MEMBER PAPARIAN: Second.

10 CHAIRPERSON JONES: I've got a motion by Mr.  
11 Eaton, a second by Mr. Paparian.

12 Substitute the previous roll?

13 No objection?

14 Put it on fiscal consent at 3-0.

15 Thank you.

16 Mr. La Tanner.

17 MR. LA TANNER: Agenda Item D presents an RMDZ  
18 loan application for Ability Counts, Inc., in the amount  
19 of \$271,000 to finance the purchase of polymer grinding  
20 equipment and working capital for the recycling of plastic  
21 garment hangers. The project is located in Riverside,  
22 which is in the Agua Mansa RMDZ.

23 The current focus of the program is reuse.

24 Plastic garment hangers of 66 -- 56 different varieties  
25 are delivered to the facility from various sources. The

1 good hangers are then sent back to the stores for a second  
2 time. The broken and reusable hangers are discarded to  
3 California landfills and some were baled and shipped  
4 overseas. The loan will finance the purchase of equipment  
5 and working capital.

6 The end users, they're going to grind down the  
7 plastic. A major customer in southern California has  
8 issued a letter of interest to purchase up to 400 tons of  
9 K resin from the company. This will result in additional  
10 diversion from the landfills of 400 tons per year.

11 Loan Committee met on August 8th and approved the  
12 loan as presented without question.

13 This is another nonprofit organization.

14 Staff recommends the Board adopt Resolution  
15 2002-459 in the amount of \$271,000.

16 CHAIRPERSON JONES: Thank you, Mr. La Tanner.

17 Any questions from the Board?

18 Can I hear a motion?

19 COMMITTEE MEMBER PAPARIAN: Mr. Chair, I'll move  
20 Resolution 2002-459.

21 COMMITTEE MEMBER EATON: Second.

22 CHAIRPERSON JONES: We've got a motion by Mr.  
23 Paparian, a second by Mr. Eaton.

24 Substitute the previous roll?

25 And on fiscal consent?

1           Thank you.

2           For the members of the audience, because today  
3 is -- we've got a presentation from the Milken Group on  
4 our leveraging as well as, when we hit the tire section,  
5 we've got representatives from the tire manufacturers  
6 joining us. We extend an invitation to all our Board  
7 members to be present. And Mr. Medina has joined us today  
8 as part of -- you know, to be part of that. So I just  
9 wanted people to understand.

10           The Chair, Linda Moulton-Patterson, is tied up  
11 in -- she's had some previous engagements she had to  
12 fulfill and may not be able to make it. But I just wanted  
13 you to understand why we may not look to Mr. Medina for a  
14 vote, but we do appreciate that he is here to hear the  
15 information.

16           Thank you.

17           Ms. Wohl.

18           DEPUTY DIRECTOR WOHL: Okay. With that, I'll  
19 move on to agenda item, E which is Agenda Item 14 in your  
20 Board book. Discussion of the Recycling Market  
21 Development Revolving Loan Program Leveraging Options  
22 Report, prepared for the Board by the Milken Institute.

23           And we will have a brief presentation by staff,  
24 and then we'll turn it over to the Milken Institute.

25           So with that I'd like to introduce Jim La Tanner

1 again.

2 MR. LA TANNER: Agenda Item 14 for the Board,  
3 Committee Item E, started back in September 2000 when  
4 staff was preparing the annual project eligibility update  
5 to present to the Board. In that agenda item we added a  
6 projection of the subaccount projecting out toward the  
7 sunset date how much funds would be available for our  
8 loans in the future years. What the projection showed was  
9 that the amount of funds for new loans was going to be  
10 declining significantly toward the sunset date.

11 In an effort to continue the loan program, staff  
12 started working on leveraging options and formed a working  
13 group with some of the zone administrators and Board  
14 staff, which led to us looking for outside resources to  
15 help identify leveraging opportunities.

16 Included in this agenda item, Attachment E, is  
17 loan staff's current 10-year history and projection of the  
18 subaccount.

19 This current fiscal year we're projected to make  
20 \$10 million in loans. And we have projected out to the  
21 sunset date how much would be available for future loans,  
22 which confirms that there is still a decline.

23 There have been several Board items relating to  
24 this that have led to us contracting out to hire a  
25 consulting group to identify leveraging opportunities that

1 the Board staff was not able to do so.

2 Here today to speak on this we have Victor  
3 Hoskins from UrbanAmerica that is on contract through the  
4 RMDZ program and is familiar with the loan program, along  
5 with the outside contractor, Milken Institute.

6 What I'd like to do is first have Victor Hoskins  
7 come up and do the PowerPoint presentation, then move into  
8 our presentation from the Milken Institute, and then open  
9 it up for questions, knowing that this needs to end at  
10 3:00 o'clock.

11 Are there any questions at this point?

12 CHAIRPERSON JONES: Any questions of the members.

13 Victor Hoskins, I want to personally thank you  
14 for being involved in this project. You've conducted a  
15 lot of RMDZ trainings on behalf of this board; and we felt  
16 it was important that you were part of this because with  
17 the expertise of our staff and the expertise of our  
18 consultants, we could make heads or tails of what's going  
19 on. So thanks.

20 MR. HOSKINS: Thank you very much, Board Member  
21 Jones.

22 Is it possible to get the PowerPoint turned on?

23 There we go. Excellent, excellent.

24 (Thereupon an overhead presentation was  
25 presented as follows.)



1           MR. HOSKINS: Good afternoon everyone. I have to  
2 tell you that I feel honored to be here today. I've been  
3 involved with the Recycling Market Development Zone  
4 Program for over a decade now. I was actually in Long  
5 Beach, California, back in the early nineties, and I  
6 helped that group -- actually Department of Public Works  
7 at that time, working with my group in economic  
8 development, to compete for a zone, and we successfully  
9 got a zone.

10           And part of the reason I was so interested in the  
11 program has to do with my own personal philosophy. For  
12 those of you who know me personally, you know that I had a  
13 Volvo. You could have driven around the world 12 times.  
14 I had more miles on that car, and my wife wanted me to get  
15 rid of it so much. But I'm a recycler and I believe in  
16 keeping things that are of value until all the useful life  
17 is gone. And I really do appreciate the opportunity to be  
18 with the group.

19                               --o0o--

20           MR. HOSKINS: What we're going to do today is  
21 just briefly talk about leveraging. I'm going to give you  
22 some quick definitions, talk about the goal of what we're  
23 trying to achieve here, some of the -- really what the  
24 problem is, and a potential solution.

25                               --o0o--

1           MR. HOSKINS: These definitions here came from a  
2 variety of sources. But really the last definition is the  
3 key one. What is going on and what really has happened  
4 really in the last 20 years is that public agencies have  
5 been working very hard at taking their resources and  
6 expanding their ability to use those resources. And that  
7 is by partnering with nonprofits, partnering with full  
8 profits in some cases, to get them to do things that  
9 really meet the goals of the public entity.

10           In this case, with the California Integrated  
11 Waste Management, this is a recycling program.

12           In other cases it involves transit authorities.  
13 Down in Los Angeles part of that transit property was  
14 financed through a local match. That local match  
15 leveraged State match. That State match and local match  
16 leveraged a federal match. The bottom line is that all of  
17 that together achieved the goal, a variety of sources.

18           Redevelopment agencies, economic development  
19 agencies, leveraging is a key factor in most of their  
20 measures. They're looking at creating new jobs,  
21 attracting businesses, but also leveraging their  
22 resources, getting the most for their money. When they  
23 put a dollar in, how many private dollars come in? When  
24 they put a dollar in, how many foundations' dollars come  
25 in to achieve their goal.

1           And essentially what you have done here is you  
2 are basically taking this concept and moving it a level  
3 up. I mean the Recycling Market Development Zone Program  
4 is very different from any program that I've seen around  
5 the country for recycling. And it is an innovation. What  
6 you're doing now is you're taking that innovation and  
7 you're going to make some demands of it that aren't  
8 common. And I think that's the important thing to  
9 realize, is that this is not common, this is not easy.  
10 The challenge that you put on yourself is a big challenge.

11           Self-sufficiency, sustainability is what many  
12 organizations around the country are trying to do today.  
13 I remember I was -- before going into the private sector  
14 as a real estate investment officer in a company that I'm  
15 in now, I worked for the City of Baltimore. I was Deputy  
16 Commissioner of Housing Community Development. And one of  
17 the key things that we wanted to do is we wanted to take  
18 our economic development agency and put some demands on  
19 it. The demand was, "You have to pay for yourself. You  
20 have to pay for yourself." Well, it sounded good when we  
21 said it, but it was almost impossible to do. And, by the  
22 way, it hasn't been done to date. It is hard to do. It's  
23 not an easy -- even if there's a cash flow there.

24           It's difficult for private businesses to make a  
25 profit. It's difficult for private businesses to pay for

1 themselves. I don't have to go into the number of private  
2 businesses that aren't paying for themselves, that don't  
3 even exist right now that were, you know, at the top of  
4 the heap just, you know, 12, 24 months ago. The bottom  
5 line is what you're asking of yourself is not an easy  
6 thing to do. And I think that's important to realize.

7           There are three concepts that are tied into this:  
8 Your public return on investment; new jobs, new tax  
9 revenues, diverting wastestream from the waste dumps. You  
10 also are looking at return on your equity. Every dollar  
11 that you have is your equity. You know, just like when  
12 you put a down payment on a house, you know, you want to  
13 make sure your equity grows. And that's what you want to  
14 do with your money or you want to make sure it grows.  
15 But, more importantly, return on investment. Your equity,  
16 combined with someone else's money, creating an income  
17 stream from your organization.

18           That really is what you're looking at overall,  
19 your return on investment.

20                               --o0o--

21           MR. HOSKINS: Long story short. You have a \$3.5  
22 million cash flow and you want to make it a \$10 million  
23 cash flow in perpetuity, because you want to fund  
24 businesses going into the future. As I said, this program  
25 was an innovation -- just the fact that it exists is a

1 huge innovation. And this next thing that you're adding  
2 on to it, it is going to be a challenge. And it is a  
3 complex challenge. And you will -- it will be evident in  
4 the presentation.

5 --o0o--

6 MR. HOSKINS: The initial mission here was to  
7 develop four leveraging options. This group started with  
8 ten and pared it down to four working with staff. And  
9 they'll go into those in detail.

10 --o0o--

11 MR. HOSKINS: But the bottom line is creating a  
12 sustainable financing program, leveraging existing and  
13 anticipated resources, and blending these, which are RMDZ  
14 funds, is what you're trying to achieve.

15 --o0o--

16 MR. HOSKINS: And these are the ways that have  
17 generally been selected to focus on. These are the  
18 strategies. They'll be gone into more detail.

19 But the first one, new market tax credit. That  
20 is the most recent program of the government for economic  
21 stimulation coming out of the Treasury Department. I  
22 recently worked with a development organization that  
23 relates to my organization to become a community  
24 development entity. And we as private companies are  
25 actually pursuing the new market tax credit program. So

1 it is not an easy thing to do, and is something quite  
2 innovative.

3 Equity equivalents. Looking at foundations,  
4 looking at nonprofits with the same mission, coming in and  
5 matching what you do. Loan guarantees, basically reducing  
6 the risk of an existing loan, reducing the risk of loan  
7 types and categories.

8 And the last is the loan sale, which you've  
9 already participated in.

10 --o0o--

11 MR. HOSKINS: And with that I am going to turn it  
12 over to Bill. And I'll be available for questions at the  
13 end.

14 MR. SCHMIDT: Hi. I'm Bill Schmidt and I work  
15 for the Milken Institute. And I'm joined here with Betsy  
16 Zeidman and Paul Pryde from the Capital Access Group.

17 I'm going to go through a brief overview of kind  
18 of what our goals were in the study. And then I'm going  
19 to turn it over to Betsy and Paul to get into more  
20 specifics.

21 --o0o--

22 MR. SCHMIDT: We're going to go through what the  
23 goal was -- I think Victor already mentioned that -- the  
24 methodology of how we conducted the study, some of the  
25 market research that went into actually developing the

1 options, and then get into more details with the  
2 leveraging strategies.

3 --o0o--

4 MR. SCHMIDT: I think Victor already mentioned  
5 the goal. We want to take this \$3.5 million and turn it  
6 into \$10 million, basically in a sustainable way  
7 throughout the rest of the program.

8 --o0o--

9 MR. SCHMIDT: The way we conducted this study was  
10 we did research and looked into the industry and the  
11 recycling and reuse market. Then we looked at the actual  
12 pool of loans that was made. And we looked at some of  
13 those characteristics, what level of growth the companies  
14 were in, what interest rates were being charged, and  
15 things like that.

16 And we also conducted interviews with past loan  
17 recipients and current zone administrators to get sort of  
18 their take on how we could develop this program better.

19 --o0o--

20 MR. SCHMIDT: Now, I'm going to go through some  
21 of the key findings from our research.

22 --o0o--

23 MR. SCHMIDT: The recycling market in California  
24 is a \$14 billion industry. And of that, if companies are  
25 actually located in RMDZ zones, you have a \$5.1 billion

1 market that this program can actually reach. And that's  
2 36 percent of the market. And that includes 12 percent of  
3 the total number of establishments in California.

4           So far through the history of the program \$55  
5 million have been made in loans. And of these loans, 14  
6 percent have been made to start-ups, 38 percent to  
7 expansion kind of middle-growth companies, and 48 percent  
8 to established companies.

9           The majority of the loans have been used for  
10 machinery and equipment, working capital, and also to some  
11 degree leasehold improvements and refinancing debt.

12           Sort of an interesting thing, if you look at the  
13 average interest rate of the entire loan pool, it's high  
14 compared to what the prime rate is now, which is --  
15 actually presents an opportunity to actually sell this  
16 pool of loans because of the way the interest rates have  
17 been declining recently.

18   --o0o--

19           MR. SCHMIDT: We also as part of our research  
20 interviewed zone administrators and some of the loan  
21 recipients and tried to get some idea of, you know, what  
22 could be some of the barriers to access to this program.  
23 They mentioned collateral requirements. Some businesses,  
24 new companies that didn't participate in the program  
25 because they couldn't use their homes as collateral. But



1 as we understand, the Board doesn't want to be in the  
2 position of foreclosing on people's homes and that's why  
3 they've made this decision.

4           Timing of interest payments. Some companies are  
5 start-ups, and it's quite difficult on the cash flow to  
6 make initial payments on a loan immediately. And one of  
7 the products that we actually developed in this program,  
8 deferred payment loans, kind of takes this into  
9 consideration.

10           Why we're here today, the replenishment of the  
11 loan pool. We want to get a -- you know, it's kind of the  
12 first step that we're taking in alleviating this problem.  
13 Some felt that the financial incentives that were involved  
14 in this program were not good enough to have people  
15 participate. And some of that had to do with the fact  
16 that interest rates have been declining in the economy in  
17 the last year as part of the economic slow down. And sort  
18 of the way that the Board lowers its interest rates  
19 sometimes it's a little bit too high. So that has kept  
20 people from maybe -- being as much of an incentive as it  
21 could be.

22           Then also confidentiality. Some start-up  
23 companies were worried about participating in the program.

24   --o0o--

25           MR. SCHMIDT: Three basic sources that people get

1 financing from when starting a recycling company: Private  
2 investment through personal savings and internal  
3 investments; venture capital; also private -- I have  
4 private lending sources twice there -- excuse me -- an  
5 aggressive bank or SBA lender, leasing and financing  
6 companies, sources from the Internet, and also government  
7 and charitable organizations, such as this program,  
8 grants, community development funds, and local development  
9 loan programs.

10 --o0o--

11 MR. SCHMIDT: Now, Betsy's going to take over and  
12 get into really some of the meat of what we came up with  
13 here.

14 Thanks.

15 MS. ZEIDMAN: Thanks, Bill.

16 What we did was after we had this information and  
17 we had looked at -- talked to a lot of people in the  
18 zones, done this research, done the markets, sat with the  
19 Board staff and talked about our findings, we then went  
20 about and said, "Okay, we need to develop some leveraging  
21 strategies." And we developed five criteria we were going  
22 to use to evaluate these strategies.

23 The first was the financing capacity, which is  
24 "How do we get the highest possible ratio between the  
25 Board's capital resources and private investment?"

1           The second was financial stability. We were  
2 really concerned about having a program that was  
3 sustainable over the long haul.

4           The third was the market responsiveness, being  
5 able to help a variety of different kinds of companies,  
6 because the type of -- there was a big variation in the  
7 type of companies among both the current borrowers as well  
8 as the potential borrowers.

9           The fourth was customer friendly, making this a  
10 simple program, you know, loan approval, shorten the  
11 process, just make it easy to use.

12           And, finally, was to have it be affordable, so  
13 that we could make the program financially sustainable,  
14 but not have interest costs incredibly burdensome on the  
15 borrowers.

16   --o0o--

17           MS. ZEIDMAN: I'll talk a little bit about the  
18 types of capital that we considered as we started thinking  
19 about a leveraging strategy. As with any kind of  
20 financing, there are basically two types of capital:  
21 There's equity and there's debt.

22           Equity is the type of capital that people put in  
23 for an ownership share in the company. When you have  
24 start-up companies it's usually angels, people like that.  
25 You know, it's very hard -- it's much harder to get

1 outside equity if you don't have a high-growth company.

2 And then two kinds of debt:

3 The senior debt, which is basically your standard  
4 loan that's usually secured by something and generally  
5 used for equipment, real estate, more hard assets.

6 And then subordinated debt, which is often called  
7 mezzanine debt, which is kind of a blend between equity  
8 and debt. It may take a back seat where it gets repaid  
9 later. It may be convertible into equity at another  
10 point. There are various forms of mezzanine debt.

11 We also looked at the fact that there was a  
12 variety of businesses within your loan pool. There were  
13 development-stage companies, companies that were just  
14 getting started, established companies. And all these  
15 companies require different types of capital. When we  
16 were looking at it, we were aware that, you know, if you  
17 were a lender, an investor, while there are some that are  
18 motivated by an interest to be involved in the recycling  
19 business or in environmental businesses, most are really  
20 looking at the business fundamentals: You know, what does  
21 the cash flow look like? How long is it going to be  
22 before my company comes back? How long has this business  
23 been in business? You know, what assets can I secure  
24 against it? What is the founder's credit history?  
25 Particularly with these small companies, that often became

1 quite critical.

2 --o0o--

3 MS. ZEIDMAN: So this graph is a little  
4 confusing. But I want to tell you a little bit about how  
5 we came up with the products. Well, we started with  
6 saying, "Okay, given these financing needs, what are  
7 products that would be useful to this market?" And so we  
8 developed this matrix where on the top you have  
9 collateral, things that the loans could be secured  
10 against. Some companies had adequate capital. Some had  
11 inadequate capital.

12 Secondly, on the right side of the axis, the  
13 vertical axis, you have cash flow, depending on what  
14 particular aspect of the recycling industry the business  
15 was in or how old the business was or how much money the  
16 business had to start with. Some had adequate cash flow  
17 on a going basis; some had inadequate cash flow.

18 If you take a look at the top left box, a company  
19 that has adequate cash flow and adequate collateral,  
20 what's appealing to them about the RMDZ loan program was  
21 the low cost financing. And a company that represented a  
22 low credit risk because it did have cash flow and capital,  
23 but they could actually go out and get conventional bank  
24 financing, they would be likely to come to this program  
25 and participate because of the reduced interest costs. So

1 to them the appropriate product would be below-market-rate  
2 loans.

3           The next box, you will see, has, if you look over  
4 to the top right-hand corner, has adequate cash flow but  
5 has inadequate collateral. It might be a service  
6 business. It might be a technology business that has  
7 developed a new recycling technology, but doesn't have  
8 really strong hard assets that a bank or other lender  
9 could lend against. They would be -- they would be like a  
10 subordinate debt product, something that would remove the  
11 collateral list from the lender. The lender knows that  
12 they get their cash back, but they don't have any  
13 collateral security. So we would create something like a  
14 subordinate loan, a loan -- it wasn't equity, but it's --  
15 and you get paid back at the full interest rate, but it  
16 takes a secondary position.

17           The bottom left-hand corner would be a company  
18 that had adequate cash flow -- I mean adequate collateral,  
19 but inadequate cash flow. A company that's got -- you  
20 know, been around for awhile, has a good market, but they  
21 just don't generate a lot of cash. But they've got real  
22 property, and maybe they want to expand. So that's a kind  
23 of company that would need a deferred payment. You know,  
24 and you could feel like you had something to secure it  
25 against -- or the lender could secure it against,

1 something to secure the loan against, but wasn't totally  
2 confident in the cash flow coming in. So in that case it  
3 would be a deferred payment loan.

4 And, finally, the last box is your start up.  
5 You're a very small company, great idea, maybe the owner's  
6 got a good track record. But there's no collateral  
7 because it's probably in one of your technology area --  
8 you know, knowledge-based parts of the industry and  
9 there's no cash flow because they haven't been around for  
10 awhile. And in that case we'd also want a deferred  
11 payment loan.

12 --o0o--

13 MS. ZEIDMAN: Once we developed this pool of  
14 products we said, "Okay, given that this is the pool of  
15 products that we think is useful for this industry and  
16 these segments of the industry that are likely to use this  
17 program, what are some mechanisms, what are some  
18 strategies that we could use?"

19 And with that we developed the four strategies  
20 that Victor mentioned: The new markets tax credit, equity  
21 equivalent, the loan guarantee, and the loan sale.

22 We actually started with a longer list. And we  
23 spent a lot of time with the Board and sort of said:  
24 "Will this work?" "Wouldn't this work?" You know,  
25 "Here's what we would have to do to make it work." And

1 through a lot of discussion and consensus we pulled into  
2 these being the four best approaches that the Board could  
3 take.

4           And with that we developed some mini-business  
5 plans for each one of these strategies, which Paul will go  
6 through in a minute.

7           I want to point out that we took several  
8 assumptions as we developed these strategies. We aimed  
9 for a target mix of 50 percent established companies, 30  
10 percent early stage, and 20 percent start up. If you'll  
11 look on the left, the numbers are slightly different. You  
12 get a slightly higher balance of early stage and a  
13 slightly lower balance of established start up. But we  
14 think it would sort out over time. And, again, we were  
15 looking at numbers that would make this a sustainable  
16 pool.

17           We took all three strategies, used the same  
18 combination of products, recognizing that because you've  
19 got a mix of companies, you're going to have different  
20 products available at different times and to different  
21 companies at different stages of growth.

22           We assumed and we developed each plan -- when you  
23 look -- not so much on the presentation, but if you look  
24 at the pro formas and the numbers in the document, each  
25 one assumed that the Board would put in three and a half



1 million dollars and that would leverage at least \$10  
2 million annually and could be recycled in perpetuity. So  
3 each plan is done as though that was the only plan.

4           It is possible to say we like both -- two of  
5 these different plans and we'd like to put them together,  
6 in which case you would split the three and a half million  
7 dollars in some combination and you would, you know,  
8 together generate at least \$10 million. But we basically  
9 took each one of these and said, "We're going to take  
10 these as though that was the only one."

11                               --oOo--

12           MS. ZEIDMAN: Paul is now going to go through a  
13 little bit of sort of a quick overview of each one of the  
14 strategies. And then we are all available for questions  
15 afterwards.

16           CHAIRPERSON JONES: Thank you.

17           As Paul comes up, I just -- if there's any seats  
18 out there -- we got some people standing around the room.  
19 If there's some available seats or somebody needs to move  
20 over, that might accommodate some of these folks that are  
21 standing.

22           Go ahead. Thank you.

23           MR. PRYDE: Thank you very much.

24           As Betsy mentioned, there were two challenges  
25 which we face in constructing the leveraging options.

1           One, as she said, was to come up with an array of  
2 products that would serve the range of borrowers that the  
3 Board is trying to help get financing.

4           And the second, and the primary, challenge was to  
5 find new capital sources which the Board could leverage  
6 with its public funds.

7           And one way of expressing this -- and I find it  
8 useful to think about a finance program in this way -- is  
9 that you have capital sources which represent a finance  
10 program's liabilities and capital, which represent --  
11 which are converted to cash, which you can then use to  
12 make loans. Those loans then become the finance program's  
13 assets. And so this combination of assets, the interest  
14 on the assets, gives the organization the ability to repay  
15 its debt, to give a return on its equity to the extent it  
16 has equity. And if you construct it properly the assets  
17 produce a return that allow the equity holder, in this  
18 case the Board, to get its money back at a return as well  
19 as repay any leveraged private money.

20           And so almost all finance organizations will look  
21 at its assets and say, "Do these assets serve my  
22 borrowers? Do they produce the stream of revenue which  
23 allow me to get a return of it on the capital that I used  
24 to fund those assets?"

25           Now, we came up with four different strategies.

1 As Betsy mentioned, these strategies are not mutual or  
2 exclusive. They can be combined with each other in some  
3 combination to meet the needs of the Board.

4 The first is a new-markets tax credit. The  
5 new-markets tax credit is a very interesting program.  
6 It's a brand new. It was enacted in the last days of the  
7 Clinton administration -- oh, I'm sorry. Thank you,  
8 Betsy.

9 Technologically challenged.

10 New markets tax credit is a brand new program  
11 that -- start from the beginning now -- a \$15 billion  
12 program which gives taxpayers a 39 percent credit against  
13 amounts invested in a community development entity. A  
14 community development entity is an organization that makes  
15 business loans and investments in low-income areas. For  
16 example, if I were to put a million dollars into a CDE, I  
17 would then be able to reduce my tax payments to the  
18 federal government by \$390,000 or 39 percent over 7 years.

19 I have plenty of technical assistance behind me,  
20 which apparently I need.

21 (Laughter.)

22 MR. PRYDE: This program, as I said, it's a  
23 7-year program. The investor doesn't get to deduct the  
24 tax all in one year, as Victor just pointed out, as you  
25 might have heard. It's taken over 7 years, 5 percent for

1 the first 3 years and 6 percent for the remaining 4 years.

2 Interestingly enough, 40 percent in the census  
3 tracks in America qualify.

4 A little aside. I was in New York and visiting  
5 an investment banking firm that's interested in these  
6 new-markets tax credit in an office building in the middle  
7 of Manhattan. They said, "Congratulations. You're  
8 standing in the middle of a qualified census track."  
9 Because of some sort of demographic aberration, the middle  
10 of Manhattan and parts of it at least are qualifying  
11 census tracks. So places you wouldn't think would qualify  
12 for these types of investments do.

13 --o0o--

14 MR. PRYDE: But the idea is that the availability  
15 of a federal subsidy in this case, this 39 percent tax  
16 credit, will make it -- is an inducement for investors to  
17 put money into a company that would finance recycling  
18 companies, using the three products that we talked about.  
19 So that's Number 1.

20 We think at the very least you could get leverage  
21 of at least five to one that way. And once again, as  
22 Betsy pointed out, our models assume that this goes on in  
23 perpetuity; that, as I pointed out, the income from the  
24 assets, the loans that are made to borrowers, is  
25 sufficient to ride a return of it on capital, so there is

1 no diminution in the ability of the Board to finance its  
2 annual needs -- the annual needs of loan recycling  
3 companies.

4 --o0o--

5 MR. PRYDE: Our specific proposal was that the  
6 Board would make a long-term loan of \$10 million. Now,  
7 that loan would be funded over a three-year period, not  
8 all in one year; three and a half, three and a half, and  
9 three.

10 The lender -- investors would invest \$30 million,  
11 for a tax credit of 39 percent, and a lender would make a  
12 \$10 million loan, creating a pool of capital of \$50  
13 million. That would allow for five years the Board to  
14 make \$10 million in loans. Earnings on those loans would  
15 then be sufficient, along with the -- the repayment and  
16 earnings on those loans would be sufficient in the out  
17 years to make additional loans, along with additional  
18 infusions over the last two years of three and a half  
19 million dollars by the Board. Once again, the idea is  
20 that this is a perpetual program that, like a bank, for  
21 example, uses the earnings and capital that it has over a  
22 long period of time to fund new loans every year.

23 --o0o--

24 MR. PRYDE: There are several sources of the new  
25 markets -- of investors for the new-markets tax credit.

1 We've listed three. One is the Enterprise Social  
2 Investment Corporation, which is investing in the  
3 low-income housing tax credit, which is -- to which the  
4 new-markets tax credit has a resemblance. Bank of America  
5 has purchased tax credits. And Behr Stearn and Company, a  
6 New York investment banking firm, a Wall Street firm, with  
7 \$31 billion in capital, has also expressed interest in  
8 this idea.

9 --o0o--

10 MR. PRYDE: Loan guarantees. One way that public  
11 entities increasingly are leveraging private capital is  
12 not making loans directly themselves, but by using their  
13 assets to leverage private capital by protecting private  
14 capital from the risk of loan default.

15 The SBA 7A program operates this way. In  
16 California, the financial development corporations operate  
17 this way.

18 And so an additional -- or a second strategy is  
19 using -- entering into a partnership with financial  
20 development corporations to create a new guarantee program  
21 under which the Board would put up money that would back  
22 guarantees made by -- on loans made by private banks to  
23 recycling companies. We've talked to some of the  
24 financial development corporations about this, and they're  
25 very much interested because they're always looking for

1 new resources to make more guarantees available to their  
2 businesses in their market areas. There are 11 of these  
3 organizations around the State.

4 --o0o--

5 MR. PRYDE: Once again, we believe a diagram  
6 helps explain an idea. And so in this case, the Board  
7 could contribute \$3 million to a small business expansion  
8 fund, which would provide up to \$12 million in loan  
9 guarantees to lenders, which would provide \$12 million in  
10 loans to borrowers.

11 The reason for the 12 to 3 -- the 3 to 12 ratio  
12 is that under the Small Business Expansion Fund Program,  
13 \$1 of loan reserves can leverage \$4 dollars in loan  
14 guarantees.

15 So for every dollar of guarantees, put it a  
16 different way, you have to have 25 cents in reserves.

17 --o0o--

18 MR. PRYDE: As we pointed out, we've talked to  
19 several of the California FDCs about this. NorCal,  
20 Pacific Coast Regional, California Southern, all have  
21 expressed interest in some sort of relationship.

22 --o0o--

23 MR. PRYDE: Loan sale. As Victor's pointed out,  
24 and as you well know, you've engaged in this type of  
25 transaction before, selling loans to investors such as the

1 Community Reinvestment Fund and using the cash to make  
2 more loans. The spin that we put on this, however, is  
3 that the loans we would envision selling would not only be  
4 below market loans, but some loans at market so that the  
5 Board would get back at least the amount of money that it  
6 put into each loan. So for each dollar you made in loans,  
7 you'd get at least a dollar back.

8           We have talked to the Community Reinvestment Fund  
9 about a program under which they would make what's called  
10 forward commitment to the Board; and that is, they would  
11 agree that for each loan made that met a certain set of  
12 underwriting standards, the Community Reinvestment Fund  
13 would agree to purchase that loan immediately after it was  
14 made. So it would be an ongoing process, very similar to  
15 the way Fannie Mae, for example, purchases mortgage loans.  
16 A lender makes a loan and immediately sells it, gets the  
17 cash and makes a new loan.

18                               --o0o--

19           CRF is interested in that sort of program because  
20 it simplifies their task. They work with the lender, they  
21 set up a set of agreed-upon underwriting standards and  
22 servicing protocols, et cetera, and the program proceeds  
23 on that basis, so that money is turned over time and time  
24 again on an almost immediate basis.

25           What we envision, is that you could make \$3



1 million of loans. If you made them in one quarter, you  
2 could sell them in that quarter. And so on a quarterly  
3 basis if you sold \$3 million worth of loans, you could  
4 make \$12 million of loans a year. Once again, we've  
5 structured our financials on the theory that the loans are  
6 bearing interest rates which would allow \$3 million worth  
7 of loans to be sold for \$3 million in cash. And we think  
8 that's quite doable.

9 --o0o--

10 MR. PRYDE: And, finally -- well -- the three  
11 sources of interest in this are Community Reinvestment  
12 Fund of course, and then two private investment banking  
13 firms; one, Bayview Financial, and the other -- shouldn't  
14 be SBA Receivables; should be CBA Receivables -- that are  
15 investment banking firms, regional firms that have  
16 expressed recent interest in community development assets.  
17 A lot of organizations are now coming to the view that  
18 small business loans, economic development, and community  
19 development loans represent a new source of business for  
20 them, and buying those loans is attractive.

21 --o0o--

22 MR. PRYDE: Finally, there are social investors  
23 who are interested in making loans and investments in  
24 organizations that are -- in turn use the money to make  
25 long-term -- making loans to companies whose purposes

2           In particular, banks can make what are called EQ2  
3 investments -- equity equivalent investments -- have done  
4 so in some cases. Foundations make program-related  
5 investments. These generally take the form of long-term,  
6 low-interest loans, that can be in turn used to fund  
7 recycling loans.

8           As we envision it, the Board would make a \$10  
9 million loan or long-term loan or recoverable grant to a  
10 community development finance institution -- I want to  
11 back up here and say that, rather than forming a new  
12 organization to be the recipient of this program-related  
13 investment or equity equivalent investment, we envision a  
14 partnership between the Board and an existing community  
15 development finance institution which would do most of the  
16 heavy lifting.

17           The Board would provide the organization with a  
18 long-term loan and a recoverable grant to match a similar  
19 loan from a program-related investor such as a foundation  
20 or a bank. A bank would then leverage that with long-term  
21 credit lines. And that would once again allow the Board  
22 to make, in our judgment, \$50 million in loans over a long  
23 period of time.

24 --o0o--

25 MR. PRYDE: Sources of funding for that include

1 the Ford Foundation, that has made -- is probably a leader  
2 in making program-related investments; a couple of years  
3 ago made \$100 million -- a \$50 million investment in an  
4 organization called Self Help in North Carolina to finance  
5 mortgage loans.

6 Citibank has made EQ2 investments to several  
7 community development finance institutions.

8 And the F. B. Heron Foundation -- it's a New York  
9 based foundation, whose only purpose is community  
10 development. And F. B. Heron has essentially said, "We  
11 want eventually our entire \$300 million in assets to be in  
12 community development assets."

13 So those are three organizations which would be  
14 possible sources of program-related investments or, as we  
15 call it, EQ2 investments.

16 --o0o--

17 MR. PRYDE: Now, the last thing we did was -- I'm  
18 going to let Betsy take the floor once again -- is compare  
19 the four strategies.

20 MS. ZEIDMAN: I'm sitting here trying to remember  
21 what this chart was.

22 This was an attempt to really look at some  
23 different criteria and say, "Okay, we've given all this  
24 information. How does it sort out?" And it's a pretty  
25 rough cut at looking, you know, plus, minus, or break even

1 on some different points. Simplicity -- you know, how  
2 simple it is to get this in place? Practicality -- does  
3 it achieve your goals, is it practical to do?  
4 sustainable -- can you actually sustain it by keeping the  
5 program going on a cost-effective basis over time?  
6 Affordability -- how much money would you have to put into  
7 it up front. And implementability -- which really has to  
8 do with, you know, what would it take to do it or do you  
9 have the skills and the forces in places?

10 --o0o--

11 MS. ZEIDMAN: As you can see, if you look at it,  
12 clearly the loan sale comes out in the terms of the best  
13 columns on the plus category. There may or may not be  
14 another to not do it. But that just gives you a rough cut  
15 across the top.

16 --o0o--

17 MS. ZEIDMAN: We went back to the original  
18 criteria that we looked at and we said, "Okay, let's look  
19 at these in the five different areas and how do they do?".

20 The leveraging ratio, which represents your  
21 finance capacity, ranges from 5 point to 1, which is the  
22 new-markets tax credit and the equity equivalent, up to 19  
23 to 1, which is your highest leverage, which would be the  
24 loan guarantee program.

25 The loan sale falls somewhat in the middle,

1 ranging anywhere from 12 to 16 to 1. This is using -- we  
2 had two sets of projections in each case, what we called  
3 base case and a best case, where we had different  
4 assumptions about interest rates, et cetera.

5           The financial stability. We've looked at a  
6 number of different products, loan loss reserves, blends  
7 of below market capital and market interests rates. And  
8 together these would produce in each case adequate cash  
9 flows to finance losses and to sell your loans at no less  
10 than par. We know you had an experience a few years ago  
11 where you did sell loans and took quite a cut. And this  
12 was all oriented around creating a portfolio of loans  
13 where if you sold, you know, one loan, you might lose  
14 some, you might make some on another, but it was intended  
15 to have the portfolio be self-sustaining.

16           From a return point of view, the return over five  
17 years averaged anywhere from, you know, zero -- a couple  
18 of them in the base case had a zero return, I think the  
19 loan guarantee and the sale -- up to 33 percent, best  
20 case, which would be the new-markets tax credit.

21           Market responsiveness. These loan products,  
22 because we did the three different products blended, they  
23 would respond to the different needs of your different  
24 companies at different stages of growth.

25           The customer friendliness. We really worked to

1 look at how you could use existing intermediaries and how  
2 you could make things simpler for the zone administration,  
3 have relationships with your customers. In some cases it  
4 does require starting a new entity. But it was not  
5 intended that the Board start something new, but work with  
6 existing intermediaries.

7           And, finally, affordability, both reducing the  
8 burden on your customers, because you don't want to  
9 increase to a degree you lose customers. So we looked at  
10 these different below-market interests rates, extended  
11 loan terms, and deferral of interest in principal  
12 payments.

13           And now we are all available. I don't know  
14 however you all want to handle the question and answers.

15           Thank you very much.

16           CHAIRPERSON JONES: Thank you very much. That  
17 was quite a presentation.

18           Mr. La Tanner, do you have anything to add before  
19 I ask the members if they have questions.

20           MR. LA TANNER: Also in the audience is Gary  
21 Holmquist from Community Reinvestment Fund, we sold the  
22 loans to. They took a look at our current portfolio. And  
23 under the new-markets tax credit strategy determined that  
24 62 percent of loans we've made are in low-income  
25 communities.

1 CHAIRPERSON JONES: Beautiful.

2 All right, members, any questions?

3 Mr. Eaton.

4 COMMITTEE MEMBER EATON: In the context of a  
5 public entity getting into the loan business and all of  
6 the other things and programs against the background,  
7 which, if any of these, runs the greatest risk as a Board  
8 that has to protect the taxpayer's purse in certain  
9 situations through fiscal integrity and so on and so  
10 forth? Are there any of these where at a certain point  
11 where you turn over and you actually do invest with  
12 another entity in a partnership? At what point can we  
13 with public dollars be held accountable for -- you know,  
14 that we've made solid loans?

15 I mean not all loans can be, you know,  
16 guaranteed. But there are certain risks and, therefore,  
17 with -- we are sometimes under a different criteria than a  
18 public entity. So what is the back drop by which your  
19 strategies are measured against this?

20 MR. PRYDE: All right. I think there are a  
21 couple forms of protection the Board would have to take --  
22 a couple of actions the Board would have to take to  
23 protect itself. One is to enter into a relationship  
24 either as an investor or a guarantor, only with  
25 organizations that themselves have a public purpose and

1 whose mission is to -- is consistent with that of the  
2 Board. That's why working with the FDCs, which are public  
3 benefit corporations; community development entities,  
4 which are eligible to receive new-markets tax credits,  
5 have to be organizations whose mission is serving  
6 low-income communities. So that's one thing, but it's not  
7 sufficient. It's necessary, but not sufficient.

8           The second thing is to enter into a contractual  
9 relationship or an investment relationship where the  
10 agreement between the organization that's going to be  
11 carrying out the work on your behalf and you specifies the  
12 performance criteria that you're going to look at to hold  
13 them accountable, and to allow you to sever the  
14 contractual relationship if they fail.

15           Now, the way -- under the new-markets tax credit,  
16 for example, if an organization that receives a tax credit  
17 allocation fails to maintain its CDE status, the investors  
18 are at risk of having to get back their tax credits. You  
19 have to certify that 60 percent at a minimum of all your  
20 assets as a CDE are going to be in low-income areas. And  
21 if you don't, you lose a CDE status. So there are a bunch  
22 of incentives and penalties for falling out of status, for  
23 not complying with the agreement you make with the public  
24 entity which is providing the funds. And I think the  
25 Board would have to take a great deal of care to make sure



1 that its contractual relationships are very similarly  
2 structured.

3           Secondly, you'd have to have some amount of  
4 oversight, regular oversight to look at the assets that  
5 this organization is creating on your behalf and saying,  
6 "Do these comply with our agreement?"

7           And I think those two things, if they were done,  
8 would protect the public interest in these loans, an  
9 organization who has the public interest as its primary  
10 mission and a contract which specifies how the Board's  
11 funds are to be used in conjunction with private funds to  
12 achieve the Board's unique mission.

13           COMMITTEE MEMBER EATON: And just one other  
14 question. Thank you for that. That's helpful because  
15 there are certain criteria by which we all have to play  
16 by.

17           Are any of these strategies multi-state  
18 strategies whereas -- or are they or in your thinking  
19 were -- whatever partnerships or the four strategies we  
20 had were all going to be invested in California-type  
21 businesses, rather than going over and investing in a  
22 recycling business in an out-of-state entity which may or  
23 may not do business with California and, therefore, our  
24 problem or our public purpose by which we exist, which is  
25 to reduce, reuse, and recycle California's waste, would

1 not be served because we would be investing in an  
2 out-of-state entity which would not be taking care of any  
3 of our waste?

4 MR. PRYDE: All the assets that would be  
5 generated would be California assets, working through  
6 California corporations, as I recall. That was an  
7 assumption that we --

8 COMMITTEE MEMBER EATON: Okay. I figured it, but  
9 sometimes it's always helpful to clarify.

10 Thank you.

11 CHAIRPERSON JONES: The two issues that you  
12 brought up just a minute ago in answering Board Member  
13 Eaton's questions, are they identified in the report as  
14 far as something for us to --

15 MR. PRYDE: I'm not sure we used that specific  
16 language. What we did use was -- we specified the type of  
17 organization, although we didn't use that general language  
18 that I just used. And we did say agreement, although we  
19 didn't specify the elements of the agreement in exact  
20 detail.

21 CHAIRPERSON JONES: All right. Because the fact  
22 that a CBE has to be doing 60 percent of its business and  
23 that we need to be aware of that if that's going to be one  
24 of our options that we're going to -- or whatever.

25 MR. PRYDE: That information is in here.

1 CHAIRPERSON JONES: That is in there? Okay.

2 All right. Because we -- I know there's a lot of  
3 massaging in this report up till just about the last  
4 minute. So none of the Board members have had a chance to  
5 read it prior to this, I don't think. I mean I don't want  
6 to speak for them. But I know I didn't get mine until  
7 today, right -- I mean some time today. And I was in a  
8 committee meeting.

9 But I had reviewed some other work.

10 Mr. Paparian.

11 COMMITTEE MEMBER PAPARIAN: Yeah, thank you.

12 Victor mentioned in the definition of leveraging  
13 that it was basically, if I'm -- I'm paraphrasing -- but  
14 basically using these funds to encourage the investment of  
15 other public, private or nonprofit funds. One thing  
16 that's intrigued me -- and I'm just curious, if you looked  
17 at this or whether perhaps would you be looking at it  
18 separately, is that there are some State sources of funds  
19 that are out there that are being invested in a variety of  
20 activities, things like the infrastructure bank, there's  
21 some community investment funds I think treasurer deals  
22 with as well as the Pollution Control Financing Authority.

23 In my mind, leveraging can include partnering  
24 with these other types of funds that are out there to try  
25 to push them to invest in what we want to see happen with

1 our funds. Was this looked at at all, or is that  
2 something we should be looking at separately in some way?

3 MR. PRYDE: We did look at some of that. And  
4 what we ended up doing is trying to say, "Now, what are  
5 the four most promising?" And these four promising  
6 options do not exclude, for example, working with the  
7 Infrastructure Bank, with whom we talked and at which we  
8 looked. But we decided that the -- what we would focus on  
9 were these four options because they seemed to have the  
10 greatest potential for bringing new private capital in  
11 without foreclosing working with other public sources of  
12 money, such as tax exempt financing from the  
13 Infrastructure Bank or working with the State Treasurer's  
14 office, which has made a commitment to work in other  
15 markets.

16 Ultimately, it's a little bit of a judgment call.  
17 But as I said, these four options might be too exclusive.  
18 And these four options don't foreclose the other ones,  
19 which -- I'm not saying we looked at every possibility,  
20 but we looked at some of the possibilities you just  
21 mentioned.

22 COMMITTEE MEMBER PAPARIAN: Right, I mentioned  
23 that we -- you know, enhance some of the funding that  
24 could be available for what you're talking about by --

25 MS. ZEIDMAN: Exactly. And I think we also -- as

1 we said, we started out with I think ten different  
2 options. And some of the other government programs were  
3 definitely included with that. As we went through and we  
4 said, okay, given the long-term goals, which is to have  
5 this program effectively be self sustaining, one of the  
6 things that we actually decided to do was to not focus as  
7 much on the government financing, because the idea was  
8 that there was -- the government financing was going to be  
9 somewhat restricted in terms of your case. You didn't  
10 want to be in a situation where you were relying on other  
11 government sources of financing that might simultaneously  
12 be restrictive. They are not mutually exclusive at all,  
13 and there are ways of leveraging and partnering within  
14 this.

15           And certainly this presentation doesn't cover  
16 every aspect of the financing that we cover in the report,  
17 because we don't want to keep you here for the next ten  
18 hours.

19           But, you know, it is another way to look at it.

20           MR. LA TANNER: I'd add, the staff has had some  
21 discussion with the California Infrastructure Bank in a  
22 couple of aspects. They make direct loans to public  
23 entities. They do not deal at all with private entities  
24 because they're able to sell the bonds at a nontaxable  
25 rate. I had talked to them about selling -- making bonds

1 underwritten by our loans; and our loans are to private  
2 businesses, so they can't do it, essentially. They would  
3 -- separately they don't have excess funds, for example,  
4 to put in the subaccount. I asked them that one, too.  
5 They had about a third of their funds taken away during  
6 the budget crunch. And they have more applications than  
7 they do funding availability.

8           The only way we could leverage with the  
9 Infrastructure Bank is if there was a project that they  
10 could finance the public portion of, and then we could  
11 finance the private business for that aspect.

12           COMMITTEE MEMBER PAPARIAN: Yeah, I can't  
13 envision -- from some of the discussions that have been  
14 taking place with regards to -- oh, what's the term --  
15 recycling parks, whatever -- eco-industrial parks, yeah.  
16 I could see that, you know, a very natural partnership  
17 there where if we could encourage the Infrastructure Bank  
18 to handle some of the public infrastructure while we were  
19 handling some of the private financing and maybe  
20 encouraging some, you know, pollution control financing  
21 authority and some of the others to invest in the same  
22 place, I think -- you know, and perhaps it gets beyond  
23 just the term "leveraging" -- just some sort of  
24 partnership to encourage the sorts of things that are part  
25 of our mission.

1           MR. LA TANNER: All right. The Infrastructure  
2 Bank actually has two programs. One's the bond program,  
3 and then they also have RE-DID, which is a different loan  
4 program. And in talking with Roma Christa Plant, who also  
5 used to be on our staff, they can do all the loans to the  
6 public entities, such as the one we did to the City of  
7 Cloverdale.

8           MR. HOSKINS: But as you pointed out, when you  
9 first started talking about the public entities working  
10 with public entities -- I mean you can look at, for  
11 example, the State of Maryland, which is the one I'm most  
12 familiar with, one of the things that we did when the  
13 Governor started looking at smart growth is we analyzed  
14 all organizations that were involved in any kind of  
15 physical development activity where they expended funds  
16 within census tracts that were considered urban, that we  
17 looked at all of those.

18           And we end up with a beautiful linkage between  
19 the economic -- the Department of Business and Economic  
20 Development -- which was the Department I was working for,  
21 I was Assistant Secretary there, I was working for at that  
22 time -- and the Department of Transportation.

23           Now, I would have never thought that there would  
24 be a linkage between those two organizations. But we  
25 ended up with some powerful infrastructure elements,

1 really lowering the cost of doing business in a number of  
2 areas, like the City of Baltimore, which is a very  
3 difficult area; Somerset County, which was a high  
4 unemployment area; Gary County, which is a high  
5 unemployment area. But these transportation dollars, they  
6 had to use, they were going there anyway, and what we did  
7 is we let them complement what we were doing. So a form  
8 of leverage not directly into the loan program, but  
9 certainly lowering the cost of the company doing business,  
10 which is really what you're trying to do overall.

11 CHAIRPERSON JONES: I think I'll ask if Gary  
12 Holmquist would like to address the Committee. I know  
13 that you were responsible, in part -- you took our loan  
14 sale the first time, right?

15 MR. HOLMQUIST: Right, right.

16 You know, and actually that -- Gary Holmquist,  
17 Community Reinvestment Fund. I structure deals for the  
18 fund.

19 That deal, comparing it to the current portfolio  
20 and that environment in '96. We had an interest rate  
21 environment where we sold the bonds at 8 and a half  
22 percent. Current environment right now is rough 6, maybe  
23 6 and a quarter.

24 Weighted average coupon on the portfolio was four  
25 seventy-five. Right now it's about five ten. So the



1 differential between market interest rate and the  
2 portfolio is pretty small.

3           You know, the cost of doing a transaction,  
4 besides the transaction cost, I would estimate to be  
5 roughly 2, 2 and a half percent.

6           And the way they restructured the deal was, you  
7 know, first transaction was secure tied \$6.1 million for  
8 the loans. We advanced on initial advance \$4.7 million,  
9 with a deferred purchase once our funds were paid off.  
10 And that's being paid off right now, the deferred, on a  
11 monthly basis as monthly cash flow is coming in.

12           We estimated when we went into the transaction  
13 that the cost of doing the deal to the Board was going to  
14 be 11 percent, assuming that, you know, all the payments  
15 were made as scheduled.

16           As it turned out, you know, even though the loans  
17 were 4 and a half percent incentive, there were a lot of  
18 prepays. Well, those prepays paid off the higher interest  
19 rate, the 8 and a half percent money that we advanced, and  
20 brought down the cost of the transaction. So the end  
21 result is, assuming that all the payments are made as  
22 agreed for their duration here, it will be roughly a 7  
23 percent cost of doing the deal, in an interest rate  
24 environment that was at 8 and a half percent.

25           So in running the -- the differential now between

1 the portfolio at 5.1 percent -- I don't have the data for  
2 the weighted average life, but it is longer. You're doing  
3 some 20-year deals versus I think the max was 10-year  
4 deals before. You know, so that kind of stretches out the  
5 monthly payments.

6 But despite this, I think I assumed less than a 5  
7 percent discount in the current interest rate environment,  
8 advancing \$22 1/2 million against a \$29 million portfolio,  
9 under the same type of structure, and not assuming  
10 anything for prepaids.

11 So, you know, it's a great time to be selling.  
12 You know, I'm not sure the interest rate environment is  
13 going to get any better.

14 Now, there was another thing I was going to --  
15 oh, talking about leveraging. One of things that we do --  
16 community Reinvestment Fund is a nonprofit. Our mission  
17 is to bring more dollars into economic development. So  
18 when we package loans and pool them up, we sell to banks  
19 who are getting CRA credit, we're selling to insurance  
20 companies, bringing private dollars into economic  
21 development. So I mean it's just another way of bringing  
22 more dollars into recycling.

23 I don't know if you have any questions.

24 CHAIRPERSON JONES: I have a couple questions.

25 First off, I appreciate that explanation, because

1 this is clearly the best deal -- I mean the minimal amount  
2 of deduction that we're going to have to take on our loan  
3 package. And your history with our former loan package  
4 default-wise -- I mean, I know you have a reserve that  
5 you're paying us back as dollars are getting paid off.

6 MR. HOLMQUIST: Right.

7 CHAIRPERSON JONES: Have you seen a loss?

8 MR. HOLMQUIST: That portfolio has been --  
9 performed pristine. It's just --

10 CHAIRPERSON JONES: Zero.

11 MR. HOLMQUIST: Yeah, no losses, no -- I don't  
12 think there's even been --

13 MR. LA TANNER: The 72 loans that we sold,  
14 nobody's missed a payment. And some of them paid back  
15 early.

16 CHAIRPERSON JONES: Right.

17 So --

18 MR. HOLMQUIST: It's been a great portfolio.

19 CHAIRPERSON JONES: So in marketing the current  
20 portfolio, with the kind of track record that we have as  
21 an agency, we should obviously see some better treatment  
22 as far as what the reserve would be.

23 MR. HOLMQUIST: Well, you know, and not only  
24 that. I mean, you know -- here's one of the things that  
25 we did when we structured the deal. We came to the Board

1 and said, you know, "Here's what we think we can do. But  
2 you choose how much you want in a reserve," because  
3 there's a tradeoff between cost of the transaction and the  
4 amount of dollars that you leverage.

5           You know, if you go for the max, the cost is  
6 going to be higher because our dollars are going to be  
7 outstanding longer. So, you know, you have to choose an  
8 optimal level. We'll come up with a dollar amount that we  
9 think, you know, we can sell. And beyond that it will be  
10 up to you to choose the optimal level for the Board.

11           CHAIRPERSON JONES: But our history has got  
12 something to do with --

13           MR. HOLMQUIST: Absolutely. I didn't --

14           CHAIRPERSON JONES: And then one other issue.

15           The option that we heard about with working  
16 with -- I think it would be an agency like yours, where we  
17 agree to what the criteria would be for giving a loan; and  
18 as we made a loan, we sold the loan. Is that something  
19 that your entity is interested in?

20           MR. HOLMQUIST: You bet. Correct.

21           CHAIRPERSON JONES: Okay. Because I think  
22 it's -- I mean, obviously interest rates are critical. I  
23 do appreciate the breakdown of the loans that you did  
24 because I get nervous when somebody tells me that the only  
25 reason that this business is even working is because the

1 loan is at a certain rate. And if it goes up a half a  
2 point, they're not going to take the loan and they're not  
3 going to get into the business. And unfortunately in the  
4 real world, if that half a point is the difference between  
5 making it or not, then the guy probably doesn't belong in  
6 the business; there isn't enough consistency to work on  
7 that close of a margin.

8           So the breakdown that you've given us of how  
9 loans are distributed makes it real clear that we could  
10 actually go after more start-ups with loan guarantees and  
11 leverage those dollars, while using the others -- you  
12 know, the sale and those types of things, to be able to  
13 really keep this program going. Because I don't see  
14 anything on the horizon that tells me that the general  
15 fund is going to be kicking us money to be making loans.  
16 And our budget is stretched to the hilt.

17           We haven't made a contribution in two years -- we  
18 haven't been able to make a contribution for two years  
19 because we've got such a tight budget. So our options, in  
20 my view, are not limited, but we've got to be smart about  
21 what we do. And if we can sell a loan package without  
22 taking a hit, which it sounds like we're not going to have  
23 to take much of a hit at all, then that's dollars we can  
24 put back into recycling businesses and keep going.

25           Any other questions or comments?

1           DEPUTY DIRECTOR WOHL: Can I give you just some  
2 logistics to the Board members?

3           CHAIRPERSON JONES: Sure. Absolutely.

4           DEPUTY DIRECTOR WOHL: This is basically a  
5 discussion item.

6           CHAIRPERSON JONES: Okay. We have two more  
7 speakers.

8           DEPUTY DIRECTOR WOHL: Oh, okay.

9           CHAIRPERSON JONES: You may not want to do -- I  
10 just want to know if the members before we went -- you  
11 want to hold off on your thing?

12           Okay. John Davis from Mojave Desert/Mountain  
13 Recycling Authority is also -- is he here?

14           MR. DAVIS: Committee Members, I'm glad to be  
15 here, I'm glad the report's here. And despite Southwest  
16 Airlines best efforts, I managed to get out of Ontario.

17           And I really wanted to hear this presentation.  
18 You know, it's been a couple years getting to this point.  
19 And we look forward on behalf of the Recycling Market  
20 Development Zone Association to working with you. I'm a  
21 member of the board of that association, and there are  
22 some other board members here as well.

23           And we did have one opportunity to submit a  
24 letter in November to request some consideration in the  
25 report. I just got the report as well, so I haven't had a

1 chance to look at our concerns.

2 I just wanted to give -- I have one question, but  
3 I think I'll be brief on my comments.

4 The loan program really is the way that we open  
5 the door. The below-market rate loan gets people's  
6 attention. We don't always go much further than that.  
7 And sometimes the loan is really not the issue. But it  
8 gets us going. And there was a period a couple years ago  
9 where we were asked to qualify, "There's money, but it may  
10 not be there when you need it." And I think -- I think  
11 one of the things that I'm going to be looking for in the  
12 report and hopefully be able to flush out over the next  
13 few weeks is what happens when there's high demand. 2000  
14 was a high demand year. And it goes with the economy. I  
15 think it's really no secret.

16 What we're doing now is hopefully preparing for  
17 the next wave of demand for the funds. And so I'm  
18 particularly interested in this kind of secondary market  
19 approach. We had suggested that that be looked at so  
20 that -- you don't have to sell the whole portfolio. You  
21 really take like the mortgage on your house and put that  
22 out there, replenish that money.

23 The discussion with the Zone Association was we'd  
24 rather have whatever funds are available now than to let  
25 it dribble in over a four or five year period, because we

1 think the important thing is to get the infrastructure in  
2 place in California now or -- and since we can't go  
3 backward. But having the money that flows with the demand  
4 is really important, and that's what we'll be looking for.

5           And so I guess my question would be whether we're  
6 going to have access after today to the people who wrote  
7 the report or whether we'll have any chance to talk in  
8 detail with them and have further understandings and  
9 whether they'll be available to help with the  
10 implementation as we go forward.

11           MR. LA TANNER: Well, my response to that would  
12 be technically the contract is going to expire soon with  
13 the Milken Institute, so there probably wouldn't be an  
14 opportunity to work with them after this. However, Victor  
15 Hoskins is probably still available. And then it's pretty  
16 much staff is going to look toward a September agenda item  
17 for the Board to consider the leveraging options, as to  
18 which one or more, if any, they want us to pursue to  
19 developing an actual implementation plan on. Depending  
20 upon the outcome of that, staff would bring back to the  
21 Board at a later time, probably November, December,  
22 specific implementation plans as to how, what, when,  
23 where, why, how much and the whole bit, for the Board to  
24 really make a decision on which ones they want us to  
25 attempt to try and implement.



1 CHAIRPERSON JONES: Okay.

2 All right, John? Is that good?

3 MR. DAVIS: I heard the answer.

4 CHAIRPERSON JONES: Good.

5 And in your scenarios that you're going to build  
6 for the Committee in September, we're going to be putting  
7 things together like, if we in talking with our friends  
8 from CBI, that we could sell the loan package for X amount  
9 of dollars, that would give us the ability to do this, to  
10 do this, do this, do this. And especially if we're going  
11 to be able to turn over loans right after sale -- I mean,  
12 right after we do a loan, that we can get it, you know,  
13 moved into another entity and get our investment back,  
14 that would obviously have to, you know, really be  
15 explained, especially the range of interest rates.

16 Because it seems to me that a combination of  
17 foundation funding and the reinvestment would be necessary  
18 to sort of blend a -- and maybe not a blend, but maybe two  
19 different types of loans, depending on two different types  
20 of potential borrowers, where the foundation dollars could  
21 be used for those start-ups or -- maybe not startups, but  
22 those mid-range people that need that lower rate if that  
23 fits somebody's portfolio better than the bank interest  
24 rates.

25 I mean, I really want to -- I'm really hoping

1 that we have that kind of dialogue in the September  
2 meeting, the "what if's" and to be prepared for, "What if  
3 we do this?" Because you got six folks up here that are  
4 all going to be able to bring value to the table, just as  
5 this group did.

6 So it's going to be a tough one. And, Victor,  
7 you're going to be there too, so bring your calculator.

8 Okay. Mr. Eaton.

9 COMMITTEE MEMBER EATON: I think that's a good  
10 point. What I'd like to be able to do at that meeting  
11 is -- we've just heard about loan proceeds. Now, I may be  
12 mistaken, but what I heard the individuals from both  
13 Milken and from Capital Access talk about long-term  
14 stability as part of the criteria, and so if you sell the  
15 loans, that's sort of one injection.

16 But I also think some of the strategies were  
17 based on the fact that the Board would have to commit its  
18 budget priorities for several years if it was going to be  
19 in a combination of strategies. Was that correct?

20 In other words, for instance, let's say that the  
21 loans generate -- loan sale generates \$20 million. And if  
22 you're looking at creating X amount over a course of time,  
23 then we would have to combine that with, you know,  
24 subsequent million and a half, 2 million, 3 million,  
25 whatever the figure would be, into our budgetary process.

1 So we would be not only committing the current Board, but  
2 perhaps future Boards, either contractually if we entered  
3 into any of these other items; is that correct? And if  
4 so, I would want to know that at that time. And not that  
5 I have one way or the other feeling, but I want to know --

6 MS. ZEIDMAN: Well, I think again it depends on  
7 which strategies you undertake. I mean we -- this says,  
8 we said from the beginning, it was intended to be  
9 sustainable and to cycle through time. I mean you sell  
10 the loans, but then you go out and you originate new  
11 loans. So you sell those loans.

12 So, yeah, you may sell the loans and get a  
13 certain amount of money, and that would -- you know, if  
14 you just sat there and did nothing, you would run out at  
15 some point. But the assumption is not that you're going  
16 to sit there and do nothing. The assumption is that  
17 you're going to be out there, you know, generating more  
18 loans, and then you would turn around and sell those  
19 loans. So that's in answer to one of those questions.

20 The other piece is that the combination issue  
21 comes down to which of the strategies you undertake. If  
22 you decide to just undertake the strategy that involves a  
23 loan sale, that's what you would do over and over again.  
24 If you decided that, "Gee, we'd also like to look at a  
25 new-markets tax credit approach" or "we'd also like to

1 look at the equity equivalent to hit a different piece of  
2 the market," then the assumption that we built in was that  
3 maybe you would apply -- you know, you would sell some of  
4 the loans and then you would apply some of that \$3 1/2  
5 million to the equity equivalent.

6 Those numbers have to be configured in various  
7 combinations. What we did was to create four scenarios to  
8 just really demonstrate different mechanisms that you  
9 could undertake depending on where you came out.

10 If you look at the criteria that we laid out, you  
11 know, those were clearly the criteria that are important  
12 to this program.

13 In terms of the weighting of those criteria,  
14 which is more important, which isn't, that's really a  
15 decision that you have to make as a board. And that then  
16 will lead you to some degree to say, "Of these different  
17 four very viable strategies, which one or ones make the  
18 most sense given the weighting that we," the Integrated  
19 Waste Management Board, "place on the different criteria?"

20 MR. LA TANNER: I'd like to add to that, for  
21 example, two of the State loan guarantee offices also are  
22 CDE and CDFI. So you could actually implement like three  
23 of these options with one or more of those offices. And  
24 more are getting into it.

25 CHAIRPERSON JONES: But going off of what Mr.

1 Eaton's saying, because it's a good point: If we let --  
2 and this is where you guys got to get your calculators  
3 together at the next meeting -- if we did a sale and we  
4 had \$22 million, but one of our options was the loan  
5 guarantee, where we had to put \$3 1/2 million in,  
6 according to your thing, I think to get \$10 million or  
7 whatever it was, and then we look at that repayment  
8 schedule, at some point you'd said years out we would have  
9 to make another investment of \$3 1/2 million.

10           Okay. Right? I mean that's some of what Mr.  
11 Eaton's talking about. So we're going to kind of need to  
12 know for future boards if we do -- you know, the scenario  
13 could be: If we do a sale, we have this much available  
14 dollars, we know we can do loan guarantees up to \$10  
15 million, or whatever, over a period of time taking \$3 1/2  
16 million of our money and at some point because of that  
17 loan payment reschedule we're going to have to augment  
18 that, you know, in year five or year four or year three,  
19 \$3 1/2 million cash, that would be critical in a long-term  
20 plan, right, so it works. So when we're looking at that  
21 --

22           MS. ZEIDMAN: If you look at -- right. And,  
23 again, if you look in the actual report, there are pro  
24 formas in there that run out for five years. So that will  
25 give you some sense of that --

1 CHAIRPERSON JONES: Blended?

2 MS. ZEIDMAN: No, they're not blended. For each  
3 strategy.

4 Again, to do the blending requires saying, you  
5 know, two from Column A and three from Column B and you  
6 have to figure it out.

7 But, yes, there are scenarios that run out -- run  
8 out over time. So you will see it on individual  
9 strategies. And then you sort of have to start, you know,  
10 cutting and pasting depending on which strategies are  
11 appealing to you.

12 COMMITTEE MEMBER EATON: Because lurking in the  
13 background -- and I'm sure that you were advised of it,  
14 but may not have included in, through no fault of your  
15 own -- is the fact that this whole program expires in  
16 about three years.

17 MS. ZEIDMAN: Right.

18 COMMITTEE MEMBER EATON: So in other words, any  
19 long-term strategy on the part of us would have to take  
20 into consideration how we want to go about doing that.  
21 And I think it would be obviously pushing for  
22 reauthorization of it based upon whatever strategies we  
23 came up with; and, therefore, locking in, you know, the  
24 funding mechanisms there, too.

25 MS. ZEIDMAN: Right. Well, that's where the

1 whole notion of sustainable came from.

2 CHAIRPERSON JONES: Thanks.

3 Okay. Mr. Steve Lautee from the Oakland/Berkeley  
4 RMDZ.

5 MR. LAUTEE: Thanks a lot. I'm also on the Board  
6 of the Association of our RMDZs. I want to congratulate  
7 and thank the CIWMB staff and the consulting staff for  
8 delivering this report. I know there was a lot of work  
9 that went into it. Besides the analysis of the leveraging  
10 options, which is the heart of it, we appreciate the  
11 analysis of the portfolio itself as far as who's present  
12 and what type of businesses are present and some of the  
13 feedback of the entrepreneurs, because I think it will be  
14 useful -- as Member Eaton mentioned, we're going to have  
15 to figure out whether we're going to remake this program  
16 and reauthorize the loan program and what form. And I  
17 think that formation will be very useful in that regard.

18 I also was going to ask about the assumption of  
19 the \$3 1/2 million contribution from the CIWMB, which you  
20 just covered, and we could certainly cover in tomorrow's  
21 workshop, but what form that's going to take. Is that  
22 annual? Is that principal and interest or something out  
23 of the IWMA? So I'll just get that on the record here in  
24 the official hearing.

25 The other question was, in the staff report for

1 this item, on Page 10 it said there was still a legal  
2 question of whether the Board can do a loan sale. And so  
3 with the counsel present here I wondered if you  
4 could just -- I thought that was resolved, that the Board  
5 did have statutory authority to execute a loan sale,  
6 before we went into this consulting report. But that's --

7 CHAIRPERSON JONES: Yeah, I agree. I think we  
8 had this issue in one of our very first meetings as a --  
9 when you guys worked with our staff and with the  
10 Chairwoman and myself.

11 MR. LAUTEE: So, anyhow, that's on Page 10, and  
12 we can talk about that tomorrow as well. But I want to  
13 get that on the record here.

14 And I'll just wrap up and say that I do look  
15 forward to tomorrow. I was also going to ask, as John  
16 did, who we might contact among the consulting team. But  
17 we have Victor's phone number and we have -- certainly  
18 have Jim La Tanner's phone number. We got them for -- on  
19 Friday, and I kept it with me all weekend, and I'm going  
20 to be sleeping with it tonight. And I'll see you all  
21 tomorrow.

22 CHAIRPERSON JONES: He's serious, too.

23 Any other --

24 COMMITTEE MEMBER EATON: Don't like it when a  
25 page is crinkled.



1 CHAIRPERSON JONES: Any other comments from Board  
2 members.

3 Patty, before you wrap up I just want to say, I  
4 appreciate the RMDZ Zone Administrators, John Davis, Steve  
5 Lautee, Jim Kuhl, and our friend from Fresno, Leslie, who  
6 worked with the Chairwoman and myself and our staff in  
7 trying to look at ways -- the Board had asked the  
8 Chairwoman and I to help work and find a way to keep this  
9 program going.

10 Clearly, I want to thank our staff for managing  
11 this contract. It wasn't also easy. I mean they were in  
12 my office a lot on this thing. But I appreciate the  
13 product that I've seen and the presentation I've seen  
14 today. And I think clearly we've got our work cut out for  
15 us in the future in trying to determine what the puzzle  
16 is. But you've given us tools now that are more than  
17 anecdotal information that we can really look at to make  
18 what is the best choices hopefully to continue to move  
19 Recycling Market Development Loan Programs to help build  
20 the infrastructure that's going to take all this collected  
21 material.

22 And so I do thank you all for the work on behalf  
23 of the Board that's been done, as well as our staff.

24 And, Patty Wohl, I will let you tell us the blow  
25 by blow, including what's on tap for us tomorrow in that

1 meeting.

2           DEPUTY DIRECTOR WOHL: Okay. I'll try and be  
3 brief so we can almost stick with our 3:00 o'clock  
4 deadline.

5           And, that is, this was a discussion item.  
6 Tomorrow we are having a special meeting with the zone  
7 administrators. And we wanted to give them some, you  
8 know, personal -- and time to go back and forth and kind  
9 of talk about their concerns. And so that's occurring  
10 tomorrow afternoon, I believe at 1:30.

11           And then we did plan to bring this item to the  
12 full board in September. At that time, we had really  
13 planned to sort of say, "What areas would the Board like  
14 us to focus on?" Because some of these are still  
15 conceptual. We still would need to contact those  
16 entities, talk about what their interests rates, what  
17 their proposal would look like, what kind of criteria,  
18 before we could really firmly tell you some of that.

19           But given the discussion here, I think we --  
20 we'll be committed to sort of running the numbers on the  
21 loan sale, so you have a clear picture of that and kind  
22 of the -- your discussion about if multiple options were  
23 taken, how would we back that out.

24           But what the Board could expect, for example, if  
25 you decided you wanted to go with the tax equity -- the

1 tax credit, we would have to do some research on that and  
2 really find out who's interested, who's out there, who  
3 wants to purchase, whatever their criteria they want to  
4 live with, and then bring an item back on that specific  
5 thing to the Board.

6 So even though September is kind of a decision,  
7 it may not be the ultimate decision.

8 So that's it.

9 CHAIRPERSON JONES: And I'm not sure how all the  
10 Board members feel about it. I mean I would think, just  
11 personally, that a sale enables to us do things. So I'm  
12 not promoting just the sale. You know what I'm saying?  
13 I'm looking at it from the standpoint that it enables us  
14 to maybe take advantage of these things and other -- there  
15 may be other options, you know. But I mean --

16 DEPUTY DIRECTOR WOHL: Especially, if some of  
17 them took longer. You know, that could be a first step.  
18 And then we could decide something else or whatever.

19 CHAIRPERSON JONES: Okay. We're going to take a  
20 break first. And I do thank all of you, both those that  
21 spoke, those from Milken. Victor, good to see you. It  
22 was important to have you because your energy for this  
23 helps drive these types of issues. So I appreciate that  
24 energy.

25 We're going to take a break for about ten

1 minutes. We'll be back here at a quarter after three, and  
2 then we will move on to our tire segment of today's show.

3 Thank you.

4 (Thereupon a brief recess was taken.)

5 CHAIRPERSON JONES: I'm going to reconvene our  
6 Special Waste and Market Development Meeting.

7 Any members have ex partes?

8 Mr. Eaton.

9 COMMITTEE MEMBER EATON: I said a quick hello to  
10 Ben Roth and not -- go back to George Larson who was  
11 interested in talking to Mr. Paparian.

12 CHAIRPERSON JONES: Okay. Mr. Paparian.

13 COMMITTEE MEMBER PAPARIAN: Yeah, I spoke with  
14 Michael Blumenthal, who no doubt would speak to Mr. Eaton,  
15 I'm sure.

16 CHAIRPERSON JONES: Yeah, I actually got away  
17 unscathed. I said -- I thank the folks from Milken.

18 We're going to get into this. But just a piece  
19 of information. I've been informed -- the tire manifest  
20 issue is a big issue for this Board. It was a huge part  
21 of SB 876. It's about a 25-minute presentation. They  
22 have said if we would prefer to hear it at the Board  
23 meeting, that would be fine.

24 I'm going to ask if there are any members of our  
25 stakeholders today that specifically came up here to talk

1 about the manifest system. I would allow those folks to  
2 speak. Otherwise we'll hear it in its entirety at our  
3 Board meeting next month.

4 Is there anybody that wants to speak to it today?

5 Gary, I think it would be -- I think it would  
6 make a lot of sense to schedule this -- or it's already on  
7 the agenda for the Board meeting, correct.

8 And it would be heard on the first day, I'm  
9 assuming? So that we could -- if we get all of our  
10 business done, we could get it done on the first day.

11 If that's good with your folks, I think that  
12 would allow us to dedicate the time on this first item.  
13 And then you and Mr. Leary can figure out, you know, what  
14 time it's going to go on in the Board. And I'll notify  
15 the Chairwoman that we've moved it to meet at the full  
16 Board.

17 Okay. Mr. Leary, is that good?

18 EXECUTIVE DIRECTOR LEARY: That works.

19 CHAIRPERSON JONES: That works?

20 All right. Ms. Shirley Willd-Wagner.

21 DEPUTY DIRECTOR WILLD-WAGNER: Good afternoon,  
22 Committee members. Because of the long agenda today, I've  
23 just got a couple of announcements for the Deputy  
24 Director's report.

25 CHAIRPERSON JONES: Are we going to do

1 considerations first?

2 DEPUTY DIRECTOR WILLD-WAGNER: We had discussed  
3 leaving -- having the agenda this way. That was --

4 CHAIRPERSON JONES: That's right, yeah. That's  
5 fine. No problem.

6 DEPUTY DIRECTOR WILLD-WAGNER: The two  
7 announcements: I just wanted to remind everyone that on  
8 Thursday, this Thursday, August 15th, here in the Cal EPA  
9 building, will be the Special Committee workshop on the  
10 tire subsidy issue. And we'll be discussing that report  
11 in length.

12 September 19th we're trying -- we're still  
13 formalizing this workshop, but we're looking at September  
14 19th as a workshop for the Committee again in Sonoma  
15 County, probably in Petaluma, to discuss the Sonoma tire  
16 sites. And we've been working with all of your calendars.  
17 That will be formally announced fairly soon.

18 That's really all I had for the Deputy Director's  
19 report, so that we can move right into Item G, the  
20 presentation by the Rubber Manufacturers Association --

21 CHAIRPERSON JONES: Shirley, hold on one second.  
22 Mr. Eaton.

23 COMMITTEE MEMBER EATON: If by chance anyone was  
24 listening outside these hallowed walls right here and they  
25 would like to get a copy of the tire subsidy report, where

1 would they get it? On our web?

2 So you just may want to mention that for the  
3 public, you know, in the E world. And also, who may be  
4 here in the offices monitoring it for their client guild.

5 SUPERVISING WASTE MANAGEMENT ENGINEER GILDART:  
6 It's actually available through the California State  
7 University Sacramento web site from Professor Rob  
8 Wassmer's web page.

9 COMMITTEE MEMBER EATON: Thank you.

10 CHAIRPERSON JONES: Thanks, Mr. Eaton.

11 DEPUTY DIRECTOR WILLD-WAGNER: Martha Gildart  
12 will introduce this item as far as the Scrap Tire  
13 Management Council -- the scrap tire management.

14 Jump right in.

15 SUPERVISING WASTE MANAGEMENT ENGINEER GILDART:  
16 Martha Gildart with the Special Waste Division.

17 It's actually the Rubber Manufacturers  
18 Association has come today to make a presentation to the  
19 Board, to speak on a variety of issues dealing with the  
20 tire rubber and its manufacturing process, some new  
21 standards, et cetera. The Rubber Manufacturers  
22 Association is made up mostly of representatives of the  
23 larger tire manufacturers, and they are also the entity  
24 that supports the Scrap Tire Management Council, which I  
25 think Shirley was sort of referring to, which has been a

1 very active organization in trying to get tires recycled  
2 and properly disposed.

3 So I believe Mike Blumenthal is going to be  
4 introducing the --

5 CHAIRPERSON JONES: Prior to that, I just wanted  
6 to say that Mr. Blumenthal had contacted me to ask if this  
7 group could make a presentation at one of our Committee  
8 meetings, at which point I said, yeah, and kind of turned  
9 him over to Martha.

10 I know Mr. Paparian has got something to say  
11 prior to this presentation.

12 Mr. Paparian.

13 COMMITTEE MEMBER PAPARIAN: Yeah, thank you, Mr.  
14 Jones.

15 I did speak with Mr. Blumenthal a couple of weeks  
16 ago, and we had a good conversation. I think it was clear  
17 to me, at that point, that there were some misconceptions  
18 about my motivations or the motivations of others who  
19 supported our contracts that we put out on encouraging  
20 increased recycled content in tires and improving mileage  
21 of tires.

22 I think this has been cleared up. Hopefully  
23 we'll find out more about that today. And as a result,  
24 hopefully we don't have to spend a whole lot of time on  
25 some of the related issues like the National Highway



1 Traffic Safety Administration proposed rules for tire  
2 durability and safety. I kind of view those as a  
3 peripheral issue to some of the things that we really want  
4 to pursue here at the Waste Board.

5 In overcoming some of these misconceptions about  
6 the motivations behind our contracts that are out there  
7 for recycled content and longer lived tires, I believe  
8 we've reached the stage where we can enter into a dialogue  
9 about how the industry and the Waste Board can work  
10 together to encourage the use of tires with higher  
11 recycled content and longer lived tires.

12 Hopefully Mr. Blumenthal has prepped his clients  
13 on some of this. I haven't had a chance to look at the  
14 overheads yet, but hopefully some of this in there. And I  
15 think it's important that we look to being able to work  
16 together on some of these issues.

17 Mr. Blumenthal and I had an interesting  
18 interchange about the potential to use  
19 California-generated crumb rubber in the mixture that is  
20 used in the recycled content in new tires. We discussed  
21 the potential of overcoming this problem of distance to  
22 the manufacturing plants in some creative ways. And I  
23 know that there are several of the crumb rubber folks from  
24 California here in the room who I'm sure would be anxious  
25 to feed this market if we could deal with overcoming some

1 of those obstacles.

2 I hope that, you know, we're prepared to talk  
3 about how we can work in partnership on some of these  
4 issues.

5 And, finally, I'll just mention I've taken a look  
6 at some of the recycling and environmental policies of  
7 some of the companies that are going to be testifying here  
8 today. And I do have some specific questions for each of  
9 them, as well as Mr. Blumenthal. So again hopefully we  
10 can find some good ways to work together and with other  
11 stakeholders towards increasing recycled content in tires  
12 in California and reducing the amount of waste tires  
13 generated in California.

14 CHAIRPERSON JONES: Thanks, Mr. Paparian.

15 MS. NORBURG: Good afternoon, Board Members. My  
16 names is Tracy Norburg, and I'm the Vice President for  
17 Environment and Research Recovery of the Rubber  
18 Manufacturers Association. And our department basically  
19 is the area where the scrap tire activities all happen.  
20 So we're very pleased to be here today.

21 And I'd like to just briefly, before the actual  
22 formal presentation begins, introduce the folks that we  
23 brought along, so that you have an idea of who's on our  
24 team here today.

25 I think everyone here or many people here know

1 Michael Blumenthal very well. He's our resident scrap  
2 tire expert. And he's very willing at any time to share  
3 information with California.

4 We also brought our State Issues Managers, John  
5 Falardo, who is sitting right behind me here.

6 And then -- so that's three on our staff,  
7 including me. And then we also have five member company  
8 representatives here, several of which will give parts of  
9 our presentation this afternoon.

10 First, we have Tom Wood from Cooper Tire and  
11 Rubber Company; Lynn Cooper from Michelin North America;  
12 Dan Pynowski from the Goodyear Tire and Rubber Company;  
13 John Sharon from Bridgestone-Firestone; and Senot Baubsar  
14 from the Yokohama Tire Company.

15 We view this opportunity really as a chance for  
16 us to share information to you -- with you, rather, about  
17 issues that are really integral to the tire industry, so  
18 that we can all, as you say, begin a dialogue in a  
19 meaningful way on scrap tire issues.

20 And with that I'd like to turn it over to Tom  
21 Wood, who's the Chairman of our Environment Committee, to  
22 give you an overview.

23 CHAIRPERSON JONES: Thank you.

24 Mr. Wood, just a piece of housekeeping.

25 Would the record reflect that Senator Roberti is

1 here.

2 Senator, any ex partes?

3 COMMITTEE MEMBER ROBERTI: No ex partes.

4 CHAIRPERSON JONES: Thank you.

5 Mr. Wood, appreciate it.

6 (Thereupon an overhead presentation was  
7 presented as follows.)

8 MR. WOOD: Good afternoon, gentlemen. Again, my  
9 name is Tom Wood, and I am the Director of Corporate  
10 Environmental Affairs for the Cooper Tire and Rubber  
11 Company. We're based in Finley, Ohio. I'm pleased to be  
12 here in California.

13 My task today is to give you a brief introduction  
14 to the Rubber Manufacturers Association. Before I do  
15 that, what I'd like to do is to give you a brief outline  
16 on the other topics that we're going to cover in our  
17 presentation.

18 We plan to tell you some challenges and  
19 opportunities facing the tire industry today regarding  
20 tire performance, testing, and safety. We also plan to  
21 talk about some tire design issues.

22 And I think both of these topics will give you  
23 the idea that tire design is certainly not a static entity  
24 at this point. On the contrary, it is very much still in  
25 development. As new regulations come about, as

1 manufacturers attempt to improve their product and what  
2 not, the tire design certainly is not a static  
3 proposition.

4           As expected, we are planning to talk in detail  
5 about scrap tire management issues, including presenting  
6 some scrap tire management statistics that we think you'll  
7 find very encouraging. And we plan to conclude our  
8 discussion with a discussion of how we might coordinate  
9 activities with the Board in the future.

10                               --o0o--

11           MR. WOOD: Now, as for the overview of the Rubber  
12 Manufacturers Association. It is the U.S. Trade  
13 Association for the rubber manufacturing industry. It  
14 represents all the major tire manufacturers in the U.S.  
15 and over 100 engineer product manufacturers located in  
16 U.S.

17           It is a member-driven organization. The members,  
18 with the assistance of the RMA staff, advocate industry  
19 positions on laws and regulations, set tire safety and  
20 performance standards, assist in the development of scrap  
21 tire markets and technical information and resources  
22 regarding scrap tires, coordinate the development of  
23 technical standards for engineered products, develop  
24 industry statistics and information, and communicate on  
25 industry issues.

1 --o0o--

2 MR. WOOD: The tire company members of the Rubber  
3 Manufacturers Association are Bridgestone-Firestone,  
4 Michelin North America, Continental, Goodyear Tire and  
5 Rubber Company, Cooper Tire and Rubber Company, Pirelli,  
6 and Yokohama. And as you may recall from the  
7 introductions, most of these companies are represented  
8 here today.

9 --o0o--

10 MR. WOOD: We thought you might be interested in  
11 the industry presence in California. We've put together  
12 this information regarding 323 company stores that are  
13 located in California; 595 independent retail outlets; 28  
14 commercial tire service centers, some of which include  
15 retread operations. There's one retail zone office, six  
16 retail district offices, six distribution centers, and one  
17 corporate headquarters for North American operations. So  
18 really we have quite a presence here in California.

19 --o0o--

20 MR. WOOD: As Tracy mentioned, there are two RMA  
21 committees that deal with environmental issues. One is  
22 the Environment Committee. And as she mentioned, I'm  
23 currently the chairman of that committee. We also have  
24 the Scrap Tire Committee. And Dan Pynowski Goodyear is  
25 currently the chairman of that committee. And he'll speak

1 in a few minutes.

2 Typically, the committee members are  
3 environmental professionals within their companies and  
4 have responsibility for environmental issues.

5 --o0o--

6 MR. WOOD: I mentioned earlier that one of the  
7 key functions of the RMA is to advocate member positions  
8 on government laws and regulations, regarding  
9 environmental issues, tire members, through the RMA,  
10 promote sound science, educate government and industry  
11 needs and issues, support environmental progress that is  
12 technically and economically sound, protect formulation  
13 and manufacturing flexibility and confidentiality, and  
14 encourage opportunities for innovation. In addition,  
15 individual member companies also have environmental goals  
16 and policies.

17 --o0o--

18 MR. WOOD: Some examples of those environmental  
19 goals and policies and environmental progress in various  
20 companies are corporate commitments to environmental  
21 improvement; implementation of environmental management  
22 systems that conform to ISO 14001, the International  
23 Environmental Management System Standard; reduction in the  
24 use and release of toxic chemicals; reduction in the  
25 generation of hazardous waste; increased recycling of

1 manufacturing waste and scrap tires; increased retreading  
2 of used tires; development of fuel efficient tires; and  
3 use of reusable containers and facilities.

4 That concludes the RMA overview portion of our  
5 presentation. Now I'd like to introduce Lynn Cooper,  
6 who's going to talk about some tire industry challenges  
7 and opportunities.

8 MR. COOPER: Thank you, Tom.

9 My name is Lynn Cooper. I'm the Corporate  
10 Environmental Manager for Michelin North America,  
11 headquartered in Greenville, South Carolina.

12 I want to talk a little bit about some tire  
13 industry accomplishments.

14 One of the biggest and most recent  
15 accomplishments is lower rolling resistance in tires,  
16 which increases fuel economy. I say recent. But a number  
17 of years ago when the radial tire was developed, the  
18 rolling resistance was cut in half. Rolling resistance is  
19 the force that you have to overcome in order to move an  
20 automobile.

21 Further developments have occurred that have  
22 decreased the rolling resistance by another 50 percent.  
23 And basically the tire contributes about 20 percent to the  
24 fuel usage of an automobile. More recent developments  
25 have reduced that by 20 percent or resulting in an



1 improvement of four percent in gas mileage. And when you  
2 think about what that means in terms of fuel economy,  
3 that's pretty substantial.

4 Another issue is a reduction in quantity of raw  
5 materials used to make tires. When the radial tire was  
6 introduced the reduction in raw materials requirements was  
7 an immediate 30 percent, and subsequent to that over the  
8 years tires have been developed that are lighter in  
9 weight, using lighter materials and different design and  
10 construction that have substantially reduced that amount  
11 since then.

12 Also, the average tire life -- since 1981, the  
13 average tire life has increased by 53 percent.

14 --o0o--

15 MR. COOPER: If you look at the chart, you can  
16 see there's been a consistent improvement in the tire  
17 mileage. And, in fact, some tires have guarantees of up  
18 to 80,000 miles if they're properly maintained.

19 The issue of tire maintenance is one of the  
20 issues that we're going to talk about a little later on in  
21 the presentation.

22 --o0o--

23 MR. COOPER: Also, as far as retreading is  
24 concerned, there are 16 -- over 16 million tires retreaded  
25 in 2001. Those are primarily truck tires. Passenger

1 tires, because of tire maintenance and the number of other  
2 issues, are not retreaded, where truck tires are  
3 consistently retreaded. And several of the RMA member  
4 companies have substantial retread operations.

5 As far as the recycled content in new tires, 15  
6 percent of the crumb rubber market goes into new tires.  
7 And that percentage of crumb rubber in new tires is  
8 limited by tire performance requirements, some of those  
9 which we'll talk about a little later.

10 --o0o--

11 MR. COOPER: There are a number of changes in the  
12 tire industry, some of those being the new tire  
13 performance and testing standards. These are being  
14 developed to some degree as a result of the TREAD Act.  
15 And we'll hear a little bit more about that later.

16 Also changes in tire design trends such as size,  
17 type, rolling resistance, change in tire materials,  
18 rubbers, fillers, oils, other additives.

19 The industry has continually reduced solvent  
20 usage in the assembly of tires, making some dramatic  
21 environmental improvements in that area.

22 One of the problems that we face is competition  
23 from cheap imported tires. Because the tires that we're  
24 producing in the United States have to meet certain  
25 requirements. Some of the tires produced in other

1 countries do not have to meet those requirements.

2 --o0o--

3 MR. COOPER: Now, also, we're talking about new  
4 environmental regulations that we're facing. The National  
5 Emission Standards Hazards Air Pollutant regulations, part  
6 of the Clean Air Act. Air toxics rules were passed in  
7 July of this year. And new limits were set for tire  
8 production, tire cord production, and puncture sealing  
9 applications. This will require some additional changes  
10 in tire design, and also it will require manufacturing  
11 changes as well.

12 Existing facilities must comply by July of 2005.

13 --o0o--

14 MR. COOPER: The tire industry's a dynamic  
15 industry. There are new evolving products, and they  
16 demand new materials and rubber compounds.

17 Take example, the run-flat technology. I have a  
18 sample here of one type of run-flat technology. And I'll  
19 pass this sample around in a minute. But you'll notice  
20 the area around the beads is much larger. If you don't  
21 have any air in the tire, then you have to have some sort  
22 of mechanical way of being able to keep the tire from  
23 unseating from the rim. So you'll notice the kind of  
24 unique design around the -- around the bead area.

25 You'll notice that in this particular design, one

1 of the sidewalls is longer than the other sidewall. And  
2 that is to improve the handling and stability of the tire.

3           There are a number of other features of this tire  
4 that you'll notice. And one of the things you'll notice  
5 also when I pass this around is you'll look at the little  
6 lines in here that show that tires are made up of quite a  
7 lot of different types of materials. So it's not just  
8 like you're taking a piece of rubber and putting it into a  
9 mold and curing it and out comes a tire. It involves the  
10 assembly of a large number of individual products in order  
11 to be able to put the tire together. And the tire is a  
12 very high technology item.

13                               --o0o--

14           MR. COOPER: Also, another evolving situation is  
15 silica tread. The silica tread was developed a few years  
16 ago. And as I mentioned rolling resistance, it  
17 dramatically improved the rolling resistance.

18           Specialty products present another problem in the  
19 bias tires -- aircraft, farm, mobile homes, mini-spares.  
20 There's a lot of evolving work being done now to make  
21 these bias tires into radial tires. So there's a lot of  
22 extra work that goes into that as well.

23           And then there are emerging technologies and  
24 trends, such as the recycle content in tires. The recycle  
25 content in tires is something that all of the tire

1 manufacturers are working on, trying to find ways to do  
2 this without compromising the quality and the performance  
3 of the tire.

4           And then there's the low-profile or  
5 large-diameter tires for passenger cars. I'm sure all of  
6 you have seen the low-profile tire. And if you'll notice  
7 that run-flat tire is a very low-profile tire. That's in  
8 contrast to perhaps the -- more or less the standard tire.  
9 This is a high performance tire. So, you see, it already  
10 has a lower profile than your standard passenger tire. It  
11 also has a wider tread. You can also see in this the  
12 broad variety of different type of materials that go into  
13 making it. And you can see the difference between the  
14 run-flat tire and this tire, because the run-flat tire has  
15 a much shorter sidewall. The sidewall has to be a lot  
16 stiffer and resist against the compression that you would  
17 have if all the pressure was going out of the tire.

18                               --o0o--

19           MR. COOPER: The industry is globalized, as most  
20 industries have been today, and there are a number of  
21 technical and environmental regulations that affect tire  
22 content, performance and testing. Evaporative emissions,  
23 material content restrictions, a number of other things  
24 like that that create the need to be able to manufacturer  
25 tires for multiple markets. To do that you have to have a

1 robust tire. The tire has to be able to withstand more  
2 pressures and different climatic conditions than what you  
3 would normally have. If you would design a tire that  
4 would work in the Sahara desert and a tire that would work  
5 at the North Pole, you can understand the differences  
6 that the -- because right now automobile manufacturers  
7 will sell their products anywhere in the world they can  
8 sell them. So if they put tires on here in the U.S, and  
9 transport them to some other part of the world, then those  
10 tires have to be capable of being able to operate under  
11 those conditions.

12 Also, the TREAD Act, which was passed in 2000 --  
13 and, as you know, regulations are in the development  
14 stage, so we don't know all of the impacts. But we'll  
15 discuss that a little further later.

16 --o0o--

17 MR. COOPER: Then as far as tire design factors  
18 are concerned: The tire's a balance. It's a -- you have  
19 tradeoffs that you have to consider. There's load  
20 strength, endurance, traction, speed rating, noise,  
21 rolling resistance, temperature resistance, tread wear,  
22 tire life, recycle content in tires. All of those things  
23 go together to make it a real challenge to be able to have  
24 a balance in tire.

25 --o0o--

1           MR. COOPER:  There are tradeoffs.  And if you  
2 look at it to meet some of these challenges of the tire  
3 design in the future, if you look at what you're going to  
4 have to do in the tread area, reenforcement of the trade  
5 area, it's going to require higher strength -- tensile  
6 strength steel.  And that's going to mean probably more  
7 weight, rubber used for added strength.  You need  
8 different types of rubber.  You need different types of  
9 anti-degrading type compounds in there, anti-oxidants,  
10 anti-oxidants.  And those type of materials will generally  
11 cost more, add more weight to the tire.

12           And then also to improve the rigidity of the  
13 sidewall, like for the run-flat, you have to be able to do  
14 that.  But the thing of it is, a rigid sidewall generally  
15 means poor rolling resistance and also more heat buildup.  
16 And heat buildup is what generally causes a problem with  
17 the tire wear, with destruction of the tire.

18           And then also better air retention.  The tire has  
19 an inner liner, which is made out of a different type of  
20 rubber from the rest of the tire.  And that inner liner  
21 has to bond to the tire.  And not only that, but it has to  
22 be impermeable.  If you want it to be more impermeable,  
23 you either have to develop new materials or you're going  
24 to have to use a thicker type material so that it will  
25 take a longer period of time for the air to pass through

1 it.

2           This is an SUV tire. As you can see, it has some  
3 characteristics that are the same and some that are  
4 different. And it has a much longer sidewall. And also  
5 it has a different bead, different bead, different rubber  
6 type construction in the sidewall and on the tread than  
7 you would have in, say, a high-speed, high-performance  
8 tire, speed-rated type tire.

9                               --o0o--

10           MR. COOPER: The limitation is, how do we improve  
11 the durability of the tire -- the tire carcass to ensure  
12 that the tire wears out rather than blows out and also  
13 maintains good rolling resistance and any other desirable  
14 characteristics that we want in the tire?

15           We know, for example, that the silica tread made  
16 some improvements in rolling resistance, also in fuel  
17 economy, longer life, and even in traction. But it has  
18 its limitations as well.

19           Bottom line is: Tires cannot be designed for  
20 maximum performance in all areas. It involves tradeoffs.  
21 To meet not only the customer's needs, but also to meet  
22 the performance demands that they have: Gas mileage,  
23 safety, any other performance requirements, handling and  
24 so forth.

25           So now I'm going to turn the podium over to John



1 Falardo of the RMA.

2 MR. FALARDO: Good afternoon, Chairman Jones,  
3 Members of the Board. My name is John Falardo. I am with  
4 the RMA in Washington DC.

5 I'm going to talk a little bit about the TREAD  
6 Act. The TREAD Act -- TREAD is an acronym for the  
7 Transportation, Recall, Enhancement, Accountability, and  
8 Documentation Act -- was signed into law on November 1st  
9 of 2000.

10 And it mandates that 12 separate NHTSA rulings --  
11 NHTSA being the National Highway Traffic Safety  
12 Administration, an arm of the Federal Department of  
13 Transportation -- and that that federal agency, NHTSA, is  
14 the one mandated by Congress in the law to carry out the  
15 language on the TREAD Act. And the TREAD Act of course  
16 was in response to the -- congressional response to recall  
17 6.5 million tires in August of 2000, two years ago.

18 A sample of the key rule makings with potential  
19 to affect the tire construction and performance are tire  
20 testing and tire pressure monitoring systems.

21 --o0o--

22 MR. FALARDO: Regarding tire testing. This rule  
23 was proposed in March of this year. The proposal includes  
24 updated tests for high speed and endurance; new tests for  
25 road hazard, bead unseating, low inflation, and affects of

1 tire aging.

2           The RMA believes that this proposal would set  
3 overly stringent standards. In fact, NHTSA's proposal  
4 would mandate that 30 percent of tires already on the road  
5 would fail. We believe the current tires are safe. New  
6 tests would require over-engineered tires, could require  
7 pneumatic changes in tire construction and performance,  
8 and that tires were tested in a non-real world  
9 environment.

10           RMA has filed comments that reflect these views.  
11 And a file ruling is expected in fall of this year.

12                               --o0o--

13           MR. FALARDO: In regard to tire pressure  
14 monitoring system, the final rule was published in May of  
15 this year, and it mandates the tire pressure monitoring  
16 systems on all new cars and light trucks starting with  
17 2004 models. System will notify drivers when a tire's  
18 inflation pressure is 25 or 30 percent below placket  
19 pressure.

20           Here RMA is concerned that this will allow some  
21 tires to operate in inflation pressures that are  
22 insufficient to carry the vehicle load.

23           And RMA's advocating that NHTSA adopt a reserve  
24 pressure standard, and has filed a petition at NHTSA  
25 stating such.

1 --o0o--

2 MR. FALARDO: I'm going to move on to an RMA  
3 program called the Be Tire Smart program. This is a  
4 multi-year, multi-million dollar campaign to educate  
5 consumers about the proper care and safety of their tires.  
6 In fact an RMA survey recently found out that nearly 90  
7 percent of motorists incorrectly check tire pressure, if  
8 at all. This, of course, states that only 10 percent of  
9 people are properly checking their tires once a month.

10 --o0o--

11 MR. FALARDO: The goals of Be Tire  
12 Smart/Play Your PART program are as follows: To  
13 communicate tire safety information to policymakers in the  
14 public, to establish key partnerships to enhance message  
15 delivery of RMA tire safety programs, and to raise  
16 consumer awareness of the importance of proper tire care  
17 and safety.

18 --o0o--

19 MR. FALARDO: Be Tire Smart/Play Your PART --  
20 PART is also an acronym, and that is for pressure,  
21 alignment, rotation, and tread, the four key elements of  
22 proper tire care.

23 Proper tire care maximizes safety, performance,  
24 fuel economy and tire wear. Underinflation, the RMA  
25 believes, is tires' number one enemy. And operating a

1 tire at just 20 percent underinflated levels increases  
2 fuel consumption by 10 percent and reduces tread life by  
3 as much as 15 percent. What this comes down to, that a  
4 tire that is supposed to run 30 PSI is running at 24 PSI  
5 increases fuel consumption by 10 percent and reduces the  
6 tread life by as much as 15.

7 COMMITTEE MEMBER ROBERTI: PSI is?

8 MR. FALARDO: Pounds per square inch.

9 --o0o--

10 MR. FALARDO: I'm now going to turn this over to  
11 the Chairman of the Scrap Tire Committee, Dan Pynowski,  
12 with Goodyear.

13 CHAIRPERSON JONES: Can I ask you a quick  
14 question before you leave?

15 MR. FALARDO: Yes, sir.

16 CHAIRPERSON JONES: On that one side you said 25  
17 or 30 percent -- 25 percent or 30 percent?

18 MR. FALARDO: 25 to 30.

19 CHAIRPERSON JONES: -- percent. Okay.

20 All right. Not a problem.

21 I understood. I just wanted to make sure.

22 MR. PYNOWSKI: Good afternoon. My name's Dan  
23 Pynowski. I'm with Goodyear. I'm in the Global  
24 Environmental Services Department. And our corporate  
25 headquarters for the world is in Akron, Ohio.

1           And we're certainly -- most of the members here  
2   have a long experience with scrap tires or finding  
3   solutions for scrap tires. And I personally feel  
4   passionate about it, having dealt with this for many  
5   decades, basically.

6           And I'd like to give you an overview of what this  
7   committee does, formally called the Scrap Tire Management  
8   Council. It's now part of the RMA. And it continues to  
9   have the mission of promoting the environmentally and  
10  economically sound management of scrap tires.

11                               --oOo--

12           MR. PYNOWSKI: All right. Our goals are  
13  primarily to eliminate all the scrap tire piles that are  
14  in the U.S, of course in an environmentally and  
15  economically sound manner, as well as promoting the annual  
16  generation of those tires. We'll see later some graphs  
17  that show that currently there's about 281 million scrap  
18  tires in the U.S., on average one generated per every  
19  citizen of the U.S.

20           The public awareness piece has been a large  
21  portion as well. Michael's traveled the country making  
22  presentations involving conferences, et cetera, to talk  
23  about the raising awareness as well as some of the success  
24  stories. And we certainly have been an advocate for  
25  legislative easement of most states in helping to develop

1 regulatory vehicles for managing scrap tires.

2 --o0o--

3 MR. PYNOWSKI: This whole committee began in  
4 1990. And it was sponsored directly by tire  
5 manufacturers. It has worked closely with the  
6 governments, federal as well as states, end-users, nine  
7 government organizations, and the general public, to  
8 attempt to accomplish our goals. And we'll see in a graph  
9 that we've tremendously increased the usage of these  
10 tires.

11 And right now the scrap tires are one of the most  
12 utilized post-consumer products in the U.S., and that  
13 RMA's recognized by the state and federal governments in  
14 many ways and shapes and forms as the leading source of  
15 this information. And certainly Michael is our advocate  
16 and certainly a wealth of knowledge and certainly  
17 resources tapped by almost anyone and everyone in the  
18 industry.

19 --o0o--

20 MR. PYNOWSKI: Some of the things that we have  
21 done is to hold conferences, state, regionally, to  
22 build -- to transfer some of the information and  
23 technology that we -- and success stories that we have  
24 had. And that we've championed creation of American  
25 Society Testing Materials' specifications to make uniform

1 standards for things like ground rubber, civil engineering  
2 applications and tire-derived fuel. There's been  
3 tremendous work I believe supported in determining any  
4 contaminants that might leach from tires when placed in  
5 landfills, used in civil engineering applications above or  
6 below, you know, water tables, you know, whether it's in  
7 contact with water or just in contact with the ground.

8           Certainly, there are libraries filled with  
9 information. And the web site that the RMA does maintain  
10 has got tremendous amount of information on air emissions  
11 as well as other technical information.

12                               --o0o--

13           MR. PYNOWSKI: And we worked hard recently to try  
14 to develop better numbers on what's the real quantity of  
15 tires in stockpiles in the various states.

16           We currently are hosting a number of conferences  
17 and stakeholder groups to educate them on a variety of  
18 subjects. We've brought together both regulators, the  
19 users -- and users, producers and the public, and we've  
20 been able to provide strategic advice to steer folks in  
21 the right direction in terms of being able to come up with  
22 proper solutions that support our mission statement.

23                               --o0o--

24           MR. PYNOWSKI: Now, I mentioned about the  
25 stockpiles. Back in 1990, I believe EPA actually

1 estimated about one billion tires in stockpiles. By the  
2 mid-nineties the estimate was around 500 million.  
3 Currently we've estimated about 300 million. Some of this  
4 is due to fires. Some of this is due to use.

5 And some is just better inventory techniques.  
6 Initially in 1990 there were some just estimates out  
7 there. But the states have gone out and tried to identify  
8 where those are at and tried to put a quantity to those  
9 since that time.

10 --o0o--

11 MR. PYNOWSKI: And this graph shows the dramatic  
12 increase. The red line shows the percent usage of the  
13 scrap tires generated. And last year we were at 77.6  
14 percent reuse rate of that 281 million I had mentioned.  
15 So 218 million tires last year were finding some sort of  
16 reuse recovery or recycling.

17 --o0o--

18 MR. PYNOWSKI: This breaks down predominantly the  
19 tire-derived fuel. But also civil engineering and ground  
20 rubber markets are increasing, and that the landfill and  
21 unknown such as stockpile or ending up on abandoned  
22 vehicles or what have you has been decreasing.

23 --o0o--

24 MR. PYNOWSKI: In comparison with some other  
25 selected classically recycled materials, scrap tires does



1 hold it's own quite well in many of these categories as  
2 well.

3 --o0o--

4 MR. PYNOWSKI: A summary of state programs  
5 shows -- the top part is primarily dealing with scrap  
6 tires in landfills -- that some states have no landfill  
7 restrictions whatsoever; some ban both whole and scrap  
8 tires from landfills; and a good third of the states  
9 allows some sort of monofill, which is a dedicated  
10 landfill just for scrap tires. These are not whole;  
11 usually shredded to some degree; maybe quartered or  
12 shredded before they go into a landfill.

13 A good majority do allow landfilling of shredded  
14 tires, but most do ban whole tires from landfills.

15 Most states have fees that are collected as part  
16 of the -- a vehicle to fund programs, management programs.  
17 And just about all states other than Delaware and Alaska  
18 have regulations on the books. And Delaware's working on  
19 something. We're thinking about that right now.

20 --o0o--

21 MR. PYNOWSKI: I mentioned most states have fees  
22 collected. Primarily it's based on tire sales at the  
23 point of sale. And usually is anywhere from 25 cents to  
24 \$2 per tire. Some states do have it on vehicle  
25 registrations and collect a fee at that point in time.

1 COMMITTEE MEMBER ROBERTI: Mr. Chairman.

2 CHAIRPERSON JONES: Senator.

3 COMMITTEE MEMBER ROBERTI: Getting back to one of  
4 your slightly earlier statistics, you said that the  
5 recycling rate for tires is 77 percent?

6 MR. PYNOWSKI: That's right.

7 COMMITTEE MEMBER ROBERTI: That includes burning  
8 for fuel, I take it?

9 MR. PYNOWSKI: Yes.

10 COMMITTEE MEMBER ROBERTI: How much of that is up  
11 for fuel and how much is for new products?

12 MR. PYNOWSKI: 41 percent of that number.

13 COMMITTEE MEMBER ROBERTI: Forty-one percent of  
14 the 77 or 41 percent --

15 MR. PYNOWSKI: That's of the total.

16 COMMITTEE MEMBER ROBERTI: Of the total?

17 So a number of states burn a lot more tires than  
18 we do?

19 MR. PYNOWSKI: Oh, yes. Because California is  
20 definitely leading that average, but their distribution is  
21 different than the national average in that your crumb  
22 rubber and rubber that's used for, say, rubber-modified  
23 asphalt products is greater than fuel use.

24 COMMITTEE MEMBER ROBERTI: I have no reason to  
25 doubt you. But it just strikes as awfully high, because

1 we bury so many tires in California. And I suspect, just  
2 my very layman's knowledge of what other states do, you  
3 know, see these horrendously large tire monofills.

4 MR. PYNOWSKI: Well, many of those are coming  
5 from stockpiles too, trying to prevent fires and, you  
6 know, moving those into a monofill or a landfill. But we  
7 do work very closely with many of the cement hills,  
8 fuel -- waste to energy, I guess it's called, facilities,  
9 pulp or paper mills. There's something like 60 cement  
10 kilns that currently burn tires, whole primarily, but some  
11 don't -- shredded, say --

12 COMMITTEE MEMBER ROBERTI: Well, we in California  
13 find it very difficult to permit a cement kiln -- I think  
14 we have a few. But, by and large, they're difficult to  
15 permit, so I'm assuming that they're easier to permit in  
16 other states.

17 MR. PYNOWSKI: Yes, in fact in some states it's  
18 encouraged because the metric NOX, or nitrogen oxides, are  
19 reduced versus burning coal and, therefore, in some states  
20 in order to make their state implementation plan they've  
21 encouraged the cement kilns.

22 COMMITTEE MEMBER ROBERTI: So tire burning is not  
23 quite as undesirable as coal burning, that may be true.  
24 We don't have that -- we don't burn coal out here too  
25 much --

1 MR. PYNOWSKI: And it depends if it's high or low  
2 sulphur coal too, of course.

3 COMMITTEE MEMBER ROBERTI: Well, I'm interested  
4 with your statistics because I -- I mean it's always --  
5 It's been my impression that -- certainly in California we  
6 have a need to find a tremendous number of more uses for  
7 used tires. And I've been under the impression, the  
8 feeling, prejudice, whatever you want to call it, that the  
9 industry growth, it was relatively content that we should  
10 just bury them. And the statistics that sort of stick in  
11 my mind are that we generate 20 million tires a year, and  
12 in Azusa alone it's 11 million, and I don't know how many  
13 in other places like Copperopolis --

14 CHAIRPERSON JONES: Nothing yet.

15 COMMITTEE MEMBER ROBERTI: Nothing yet.

16 And that's not talking about the illegal dump  
17 sites. So whatever -- I'm interested in your data. But I  
18 do have this bug in my head that tells me that the  
19 industry by and large hasn't worked too hard at looking  
20 for alternative uses. But your statistics are  
21 interesting; 77 percent's awfully high.

22 MR. PYNOWSKI: Well, Michael's got some  
23 statistics specifically in California. And see how that  
24 compares with, you know, what our understanding of it is.

25 COMMITTEE MEMBER PAPARIAN: Can I just follow-up?

1 CHAIRPERSON JONES: Yeah, go ahead.

2 COMMITTEE MEMBER PAPARIAN: My understanding, in  
3 Europe -- I want to know if you know about this -- that  
4 Europe is planning to ban -- the EU is planning to ban  
5 tire shreds from going to landfills in the next year or  
6 two, and then whole tires at some point in the next five  
7 six years.

8 MR. PYNOWSKI: That's correct, yes.

9 COMMITTEE MEMBER PAPARIAN: And then at the same  
10 time, kind of on the other end of things, my understanding  
11 is they have some new cement kiln air quality regulations  
12 going into effect in a few years that -- the speculation  
13 from the tire companies in Europe is that that's going to  
14 greatly reduce the amount of tires in cement kilns in  
15 Europe. Are you familiar with that?

16 MR. PYNOWSKI: Yes. And that would have an  
17 impact. It primarily impacts the older cement kilns with  
18 older technologies. But those are ones that are good  
19 candidates for scrap tires because they have greater  
20 energy consumption and have a greater economic driver to  
21 use scrap tires as an alternative fuel. But you're  
22 correct in your statement.

23 COMMITTEE MEMBER PAPARIAN: If we were to adopt  
24 similar air quality requirements in the United States, do  
25 you think that would reduce the number of tires going to

1 the cement kilns in the United States?

2 MR. PYNOWSKI: It depends on which area of air  
3 quality, because with the high sulfur coal we're  
4 definitely reducing the sulfur emissions as well as the  
5 nitro -- oxide emissions compared to coal. And this is  
6 just supplement. This isn't full blown taking tires and  
7 burning all of them. This is supplementing anywhere from  
8 10 to 15 percent. Many kilns are permitted for much more,  
9 but they only burn maybe 10, 15 percent of their total  
10 fuel needs. So it's more of a supplement.

11 COMMITTEE MEMBER PAPARIAN: I'll hold on until  
12 after the presentation.

13 CHAIRPERSON JONES: One thing on your 77 percent,  
14 because it's always been a number that's really bothered.

15 Are you saying then that the other 23 percent go  
16 into stockpiles? Because the stockpiles that exist  
17 throughout the nation are being fed into those end uses,  
18 which means tires in the flow aren't going into those end  
19 uses. So they got to be going in somewhere.

20 MR. PYNOWSKI: Yeah, they've got to be displacing  
21 in some case.

22 CHAIRPERSON JONES: Right. So that 77 percent,  
23 or whatever that number is, really is tires that are in  
24 existing stockpiles and then some portion of the flow?

25 MR. PYNOWSKI: You can't really -- there's no

1 real records or information to be able to break those two  
2 flows apart. But there are tires, no doubt, coming from  
3 stockpiles going into these markets, for sure.

4 CHAIRPERSON JONES: As a policy maker, when the  
5 statement is made that 77 percent of all tires are being  
6 recycled, it gives the impression then that means that the  
7 yearly generation of all tires, 77 percent are being  
8 recycled. And what I'm asking is, some of those tires are  
9 coming out of piles?

10 MR. PYNOWSKI: That's correct.

11 CHAIRPERSON JONES: So in essence it's not 77  
12 percent. It's a number equal to 77 percent of the flow.  
13 But it's not 77 percent of the tires that are being  
14 removed from vehicles in any given year that are being  
15 recycled.

16 MR. PYNOWSKI: We'd have to be careful how we  
17 state it then that there's an estimated 281 million scrap  
18 tires generated and 218 million were recovered, reused or  
19 recycled, which include both the stockpiles as well as  
20 the --

21 CHAIRPERSON JONES: Right. And it just becomes  
22 problematic for a state regulator that is trying to put  
23 programs together in a state to hear from the rubber  
24 manufacturers that in fact 77 percent of all tires are  
25 recycled. That is a problem when it comes to how we put

1 programs together, because it gives the impression that  
2 there is no problem. And, clearly, there has been and is  
3 a problem, right? Otherwise you guys wouldn't be here.

4 MR. PYNOWSKI: Well, until we can eradicate all  
5 the piles, then yes. I mean that's still part of goal as  
6 well, to handle all the take-outs --

7 COMMITTEE MEMBER ROBERTI: How many tires would  
8 you estimate are in all the piles?

9 MR. PYNOWSKI: Three hundred million.

10 COMMITTEE MEMBER ROBERTI: Nationwide?

11 MR. PYNOWSKI: That's correct. And we have  
12 breakdowns by STATE as well.

13 COMMITTEE MEMBER ROBERTI: Well, then I want to  
14 just ditto what our chairman has said. And I understand  
15 you're presenting a case to us, and we appreciate that.  
16 But you could be giving us an impression that there just  
17 isn't a problem because 77 percent figure is startling  
18 high. And the Chairman has hit on the point. You know,  
19 you're talking about the stuff you're mining out of the  
20 piles from a reserve of 300 million. That's a much  
21 different picture.

22 COMMITTEE MEMBER PAPARIAN: Just One other thing.  
23 I'm sorry. I can't let this go. It's more of a topic for  
24 I think Thursday. But when it's stated that 77 percent of  
25 the tires are being recycled, I dispute that. I don't



1 think that the incineration of tires is recycling of  
2 tires. And I think the European counterparts of some of  
3 the companies here today have accepted in Europe that tire  
4 incineration is something different than recycling. And I  
5 think our statutes are pretty firm on that too. Although  
6 I understand it's a subject of dispute.

7 CHAIRPERSON JONES: Actually, our statutes say  
8 the energy recovery. That's how the law was written.

9 COMMITTEE MEMBER PAPARIAN: The statutes refer to  
10 energy recovery, but they don't equate energy recovery to  
11 recycling. I think recycling in the hierarchy is  
12 something that's much different than energy recovery.

13 CHAIRPERSON JONES: And I am looking forward to  
14 that debate, because Willy Brown wrote the legislation.

15 COMMITTEE MEMBER PAPARIAN: Yeah, and I think the  
16 law's clear.

17 MR. PYNOWSKI: Careful to try to show that  
18 that's -- call it reuse or some other term rather than  
19 recycling. Because in the graph we presented we state  
20 things like recovery, reuse and recycling. Cover all  
21 bases.

22 CHAIRPERSON JONES: Mr. Blumenthal.  
23 You need to stand up and identify yourself.

24 MR. BLUMENTHAL: My name is Michael Blumenthal.  
25 I'm with the Rubber Manufacturers Association.

1           I think the issue on that number of 77 percent  
2 and the question about whether tires are recycled I think  
3 got off on the wrong tangent.

4           The number that we have out there was 77 percent  
5 of what the annual flow would be go to an end-use market.  
6 We recognize not all of them are recycled in the true  
7 sense. We do not represent that tires going to energy are  
8 being recycled. We say they are being used for energy  
9 recovery. That is an aggregate number.

10          And as far as what goes on across the country, it  
11 is different from area to area and from state to State.  
12 But we did not prepare a detailed presentation on where  
13 the markets are or are not. Certainly we are -- I want to  
14 tell you we have a biennial market report that should be  
15 out in just a month or two that will go into much greater  
16 detail so that we can answer your questions about where  
17 the markets are, where the numbers are coming from. They  
18 are hard numbers, and we know where the tire piles are  
19 relative into each State.

20          So the number of tires -- the question of the  
21 definition as we -- we're not stating that 77 percent get  
22 recycled. There are markets for and equivalent of 77  
23 percent of the annually generated scrap tires in this  
24 country.

25          We also never try to represent the fact that

1 there is not a scrap tire issue.

2 CHAIRPERSON JONES: I know.

3 MR. BLUMENTHAL: That's not what any of our  
4 documentation has come forward with. We have never made  
5 that -- that is not an issue that we believe in. And I  
6 think our presence here, as well as in many other states,  
7 working to help further develop markets or in some cases  
8 to flat out develop markets, is testimony that we still  
9 believe there are many issues that need to be addressed  
10 and that we, the industry -- I presume that's what he  
11 meant by the industry -- that we, the tire manufacture  
12 industry, are involved in this and take a very active  
13 role.

14 And then I will augment the statements later.

15 CHAIRPERSON JONES: Thanks, Mr. Blumenthal.

16 Go ahead, continue.

17 MR. PYNOWSKI: Okay. Continuing on with some of  
18 the state programs. Many do require collectors and  
19 processors to be permitted, registered, with manifest  
20 systems in many cases. And that many have sufficient  
21 markets to address annual generation numbers, but still  
22 have to deal with stockpiles. And many provide grants and  
23 loans to processors and recyclers.

24 Twenty-seven states, a little more than half  
25 here, have some sort of active clean-up program to take

1 some of those funds that are collected and tackle those  
2 stockpiles that are currently out there.

3 --o0o--

4 MR. PYNOWSKI: And many states we've stated that  
5 there are programs. And we've seen good ones and bad  
6 ones. But we sort of cherry-picked some of the successful  
7 aspects of it to outline here.

8 Having a fixed-term dedicated fee. We have seen  
9 the fees collected, diverted to general funds or go into a  
10 general fund and, therefore, not available for scrap tire  
11 management. But in this case, we do advocate trying to  
12 have a dedicated fee so that it would be used for scrap  
13 tires.

14 Funds have been used to help develop end-use  
15 markets. One-time testing of, say, air emissions or  
16 leachate or some new process to be able to recycle  
17 material back into another product.

18 Grants and loans, primarily using those for  
19 equipment for end-use and product market development.

20 Funds, as I mentioned, have been used to abate  
21 tire piles over some period of time to try to minimize  
22 those to reach our goal of eradicating all of them. And  
23 also for enforcement of regulations, because that keeps  
24 those that are in business, have a legitimate business, on  
25 a level playing field with the rest.

1 --o0o--

2 MR. PYNOWSKI: Some of the items we found to be  
3 avoided were subsidies of processors or end-users --  
4 michael will talk about that a little bit more in his  
5 presentation -- or focusing on processing technology; or  
6 just having a focus on a single market, as I think you  
7 recognize that there's many different markets and we need  
8 all those in order to be able to tackle all of the tires  
9 we have out there.

10 --o0o--

11 MR. PYNOWSKI: That single market does  
12 effectively destroy some infrastructure because it may  
13 steal some of the market share from other programs, other  
14 markets. It doesn't necessarily guarantee a demand for  
15 the products, and we've seen it fail in a number of other  
16 states.

17 --o0o--

18 MR. PYNOWSKI: Now, Michael's going to talk about  
19 specifically the California program and what we can do to  
20 work together.

21 MR. BLUMENTHAL: Good afternoon, gentlemen, Mr.  
22 Chairman, Board Members.

23 My name is Michael Blumenthal. I am the Senior  
24 Technical Director of the Rubber Manufacturers  
25 Association. I've been with the Association since October

1 1990, and I was hired as the Director of the Scrap Tire  
2 Management Council. I've been involved in the scrap tire  
3 industry since 1986. And have a few comments to make.

4 --o0o--

5 First, some of this material will be very  
6 familiar to you since it's right out of your notes.

7 In California as of last year you starting  
8 collecting a one-dollar fee at the point of sale,  
9 dedicated fund, fund goes to grants and loans, other types  
10 of programs. You have market incentives for purchase  
11 of -- purchase preference for products containing recycled  
12 content, as well as issues for purchase of retreaded  
13 tires, which the Association fully supports.

14 --o0o--

15 MR. BLUMENTHAL: Landfills of tires is still  
16 allowed in the State. No whole tires can go into  
17 landfills. Tire shreds must go in. And the monofills are  
18 being looked at.

19 --o0o--

20 MR. BLUMENTHAL: Some of the achievements we have  
21 recognized -- we want to let you know that we  
22 recognized -- about California is your 1992 market  
23 feasibility study I think was one of the best reports ever  
24 done. The Earlier part of that document talks about  
25 certain tire manufacturing issues. I think that was well

1 done then; I think it still is valid today. And we make  
2 use of it on a regular basis.

3 As well as your air emission testing reports.  
4 There are two or three reports out from the State.  
5 Excellent reports. Very comprehensive testing protocols.  
6 Very good results. We also share this with other and  
7 other industries.

8 As far as your ongoing programs are concerned, we  
9 applaud your effort to try and find markets for tire wire  
10 and fluff. It's been one of the banes of the industry.  
11 Our own efforts working with tire wire have basically  
12 failed. Once the recycled market -- recycled -- the  
13 secondary market for steal, when that collapsed, all our  
14 efforts on trying to market steal went along with it.

15 Fluff has always been a problem issue, and we're  
16 glad that you have that contract out.

17 --o0o--

18 MR. BLUMENTHAL: Efforts to educate drivers on  
19 tire care and safety maintenance we think is a very good  
20 program. Obviously it parallels our program. And it's  
21 one of the things we want to talk about that we can work  
22 together. I'll get to that in a few minutes.

23 You look at longer-wear tires. Obviously it's of  
24 very great interest to our manufacturers. Our  
25 manufacturers put a lot of effort, a lot of engineering, a

1 lot of research into their project. Like to see the  
2 product last as long as it is designed for and get all of  
3 the engineering properties that it has been engineered  
4 for.

5           Information on asphalt rubber. I think the State  
6 of California leads the nation in the information exchange  
7 and the education on rubber-modified asphalt, sometimes  
8 also called asphalt rubber, with your two technology  
9 centers, one in northern California, one in southern  
10 California. It is a model that we have tried to get other  
11 states involved with. We always point to California as  
12 the model for this. One other State has followed along.  
13 That was South Carolina. But they only have one. They're  
14 a little smaller than you guys are. And of course your  
15 conferences and workshops have been among the best and we  
16 have -- and we'll get into that.

17                               --o0o--

18           MR. BLUMENTHAL: As far as what your state does.  
19 These are your state numbers. We figure the estimate's  
20 around 31 million tires, maybe a few more, maybe a few  
21 less, that are generated in the state. Remarkably you  
22 have markets for 27 million. Markets, and that is all  
23 markets combined -- fuel, civil engineering,  
24 rubber-modified asphalt, and product manufacturing.

25           California is one of only two states that



1 actually has multiple markets, all -- basically all four.  
2 Florida is the other.

3 Different states, different regions have  
4 different markets due to a number of different factors.  
5 Not every State has a pulp and paper mill, not every state  
6 has a kiln that's either there or that can use tire cell.  
7 Type of markets and the market dynamics vary from place to  
8 place.

9 The remainder of your tire is -- typically are  
10 either landfilled or exported. And overall, if you look  
11 at numbers of tires -- and you have about two million  
12 tires in stockpiles, and I believe those are targeted to  
13 be -- California certainly has a laudable record on tire  
14 management, on the markets for tires, all markets for  
15 tires. Current, you have about 92 to 94 percent of all  
16 the tires that are produced in the state, and on an  
17 analyzed basis, go into either an end-use market or are  
18 managed. And managed means go into a landfill.

19 The industry's position on landfilling is that --  
20 inherently there's nothing wrong putting tires into a  
21 landfill. It's not going to contaminate the area. The  
22 whole tires may float, but no -- very few landfills take  
23 in whole tires anymore. There's nothing really wrong with  
24 putting a tire into a landfill per se. It is a safe place  
25 to put it. It's better than putting them into a

1 stockpile. But it is certainly not considered a market.  
2 It's not our first choice. We do not believe that all  
3 tires should be landfilled. There are certain cases where  
4 there are no markets available. For example, certain  
5 parts of Montana, North Dakota, South Dakota, Wyoming, and  
6 in Nevada, where there are no markets available for scrap  
7 tires. In those places where there are no markets  
8 available, landfilling tires where it is still legal is a  
9 viable management option that can be and should be  
10 utilized.

11 --oOo--

12 MR. BLUMENTHAL: Where we shift in our position  
13 is that where you have markets or are trying to develop  
14 markets for scrap tires, whatever that market is, the  
15 landfilling -- the ability to landfill tires is  
16 inconsistent with the development of economically and  
17 viable markets -- end-use markets for tires, whether it's  
18 fuel, civil engineering, ground rubber, what have you.  
19 The two are mutually exclusive, because landfilling  
20 clearly is the least-cost disposal option available out  
21 there, and it will win every time. Tires, still  
22 considered a waste product -- a solid waste -- a solid  
23 waste mentality is to get rid of it at the least-cost  
24 disposal option that is legal. That is a landfill.

25 Where you have the two working that same time, we

1 have landfills and markets working, what we try to suggest  
2 is that you may want to consider the phasing out of  
3 landfilling or the increase in the specifications for tire  
4 shreds to go into landfills, or something to change the  
5 economic balance where the processors of tires have a  
6 better chance of getting those tires on an economical  
7 basis, all coming down to what tip fee is. And we'll talk  
8 about that in just a minute there.

9           So what we support is all viable markets for  
10 tires. So it's those that are environmentally sound and  
11 cost efficient -- fuel, civil engineering, ground-rubber  
12 applications. Ground rubber applications include new  
13 manufacturing products as well as rubber-modified asphalt  
14 and all the new array of products that are out there. We  
15 can talk more about that in just a moment.

16                               --o0o--

17           MR. BLUMENTHAL: In California you have seven  
18 ground rubber producers. And the way the market is  
19 working now you have less of a number of asphalt rubber  
20 contracts this year and presumably next year. There is a  
21 dwindling market for asphalt and, hence, there is an  
22 attendant overabundancy of ground rubber in the  
23 marketplace. California unfortunately lost one of their  
24 major ground rubber purchasers in Royal. They  
25 consolidated their operations. Now they're in Georgia.

1           Lands fills set the tip fee. We figure it's  
2 about \$0.45 per passenger car tire.

3           But you do have additional market capacity in  
4 tire-derived fuel, in civil engineering, in playground  
5 applications, in soil amendments. And in both large or  
6 smaller ground rubber sizes we believe there are  
7 additional market capacity out there.

8           Some of the issues of concern in California. We  
9 are concerned about the possibility of a market support by  
10 the State, a price support through a subsidy for ground  
11 rubber for whole tire processing, \$0.17 at processors,  
12 \$0.10 for tire-derived fuel, \$0.50 for the end-use  
13 products.

14           Typically what we have found is that if there's  
15 simply an emphasis on the collection and processing tires,  
16 that's where the tires will go. Texas had this problem.  
17 Texas today has a major problem because of what happened  
18 five years ago. They never focused on market development.  
19 They focused on processing.

20           Putting money into processing or collection still  
21 does not guarantee any additional markets. This is not a  
22 supply-side driven industry. This is a demand-pool  
23 industry. Always has been; I think always will be.

24           And emphasis, we believe, should be placed on  
25 end-user markets. If you are going to put money into the

1 system -- other states have done this -- Illinois -- I  
2 think -- Illinois is the paradigm. They produce 15  
3 million tires a year. They have markets for 21 million  
4 tires a year. They are a net importer of scrap tires to  
5 meet market demand, for ground rubber, for civil  
6 engineering, and for fuel, as well as a very aggressive  
7 retread industry. I can give you a name and number if  
8 you'd like that.

9 But basically what they have done is they put the  
10 grant into a one-time use for an end-user. If you are a  
11 mat maker and need a new machine to make something, it's a  
12 one-time grant. If you're doing testing to make sure it  
13 can be put into a system, there's a grant for that. But  
14 the grants end. And then the presumption is that you will  
15 use local materials. And that's always understood.

16 One of the other potential problems we see with a  
17 price support through a subsidy is that when the price  
18 support ends, the market suffers. The markets that have  
19 taken that material typically will not take it at a higher  
20 price. A lot of the processors have been working in this  
21 realm of false economies. When the price support net goes  
22 away, the market crashes. We've seen it in Texas. We've  
23 seen it in Wisconsin. They used to have one of the best  
24 programs out there. It is consistent. And we believe  
25 that is a problem here.

1           It also tends to shift -- if you create a false  
2 economy and bring tires into an artificial market, it can  
3 take tires away from existing markets or from other  
4 potential markets.

5           The market implications of the ability to  
6 landfill tires, as I mentioned before, it does limit the  
7 number of tires that go an end-use market. It also sets  
8 the maximum or the highest tip fee that can be allowed.  
9 And that has a direct impact on the marketplace, on the  
10 processors of tires. And that obviously has an impact on  
11 their viability.

12                               --o0o--

13           MR. BLUMENTHAL: The focus of grants on a narrow  
14 range of activities. We believe -- we have always  
15 believed, and our position is that there is no one  
16 solution to this scrap tire problem; is that it will take  
17 multiple markets. And certainly California has more  
18 markets than anybody else out there, not only in quantity,  
19 but in the variability of the markets. A diverse  
20 marketplace is a key for long-term viability.

21                               --o0o--

22           MR. BLUMENTHAL: Some of the things we'd like to  
23 suggest is that -- we do have many common interests. And  
24 we have taken an active role in the State of California.  
25 Just because you're on the west coast and our office is on

1 the east coast doesn't mean we never come out here. I  
2 think Mr. Jones will know that the council -- that the RMA  
3 has been a very active participant in the Oregon tire  
4 program. Matter of fact the reason I can't be on Thursday  
5 is because the next meeting in Portland is on Thursday.  
6 It was a tough choice to make. But I already had my plane  
7 tickets, so that pretty much cast it.

8 But we certainly have been here before. During  
9 the last legislative session we were a contributor of  
10 ideas and information. We have spoken at a number of the  
11 Waste Board conferences. We have always been willing to  
12 submit comments and ideas on any kind of programs that you  
13 have here.

14 What we would like to suggest. And this just the  
15 beginning of it. These are certainly not the only things  
16 that we have in mind. But we do share a number of common  
17 interests. I think first and foremost -- well, not first  
18 and foremost -- but first on the list is we would like to  
19 be able to participate in any grant oversight committee.  
20 I'll give you a couple -- what I'm looking at.

21 When the State of California looks into giving a  
22 grant, perhaps there has been other states who have done  
23 something like what you are thinking about. For example,  
24 in the recycled content arena, the State of North Carolina  
25 has put almost two million dollars into a grant with one

1 of our member companies, Comparable Tire. And while the  
2 reports still are considered confidential, North Carolina  
3 will be issuing a report on this some time in the near  
4 future. These types of things are out there. We would  
5 like to be able to be tapped as a resource to look into,  
6 not so much what has been done, but what can be done from  
7 what has been done as a second step.

8           We would also like to volunteer to be part of the  
9 review committee or of a stakeholders' committee when the  
10 review comes up for your tire program. I believe it's  
11 going to be in two years. We are not going away. This is  
12 not a one-time presentation, a one-time effort here in  
13 California.

14           And one of the biggest issues that we have -- and  
15 I believe that California is on the right direction  
16 looking into this -- is to partner in the development of  
17 information on tire care and maintenance. As you heard  
18 before, the number one problem around is that most people  
19 ride on under-inflated tires. Simply by checking the air  
20 pressure, tire rotation, proper maintenance, not only will  
21 you make the tires last longer, but you'll get better gas  
22 mileage, which means that the engine will work less hard  
23 and you get less emissions out of the tailpipe. And I  
24 think we all want to see that.

25           And with that I thank you for your time and



1 attention. We'd be happy to answer any questions that the  
2 Board may have.

3 CHAIRPERSON JONES: Thank you.

4 Mr. Eaton.

5 COMMITTEE MEMBER EATON: Thank you very much.

6 I just have a couple of questions regarding to  
7 clarification. Then I'll have some comments later on.

8 With regards to slide Number 40, your california  
9 scrap tire overview, you talked about 30 to 33 million  
10 scrap tires per year generated here, and that we have  
11 markets for 27 million scrap tires. Is that market with  
12 or without Royal that was previously mentioned, that is no  
13 longer --

14 MR. BLUMENTHAL: That is without. These numbers  
15 come right from your --

16 COMMITTEE MEMBER EATON: Without?

17 MR. BLUMENTHAL: Without. These numbers come  
18 from your staff people.

19 COMMITTEE MEMBER EATON: And the implication in  
20 that slide is not that California has markets for 27  
21 million California-generated tires. In other words, the  
22 27 million that could go into the marketplace aren't only  
23 California generated --

24 MR. BLUMENTHAL: I think the vast --

25 COMMITTEE MEMBER EATON: -- is that correct?

1           MR. BLUMENTHAL: I would actually send that  
2 question over to Martha Gildart since I got the numbers  
3 from her.

4           SUPERVISING WASTE MANAGEMENT ENGINEER GILDART:  
5           Roughly three million were imported as part of  
6 that 27. And so of the California tires, it's closer to  
7 24.

8           MR. BLUMENTHAL: And I'd also add that you still  
9 have an abundant capacity of market availability here in  
10 the State, both in civil engineering and ground rubber as  
11 well as tire-derived fuel. Case in point, you're  
12 working -- you have a contract with Dr. Dana Humphrey at  
13 the University of Maine. He's working on two projects  
14 right now.

15           There is virtually an endless possibility of  
16 large-scale value-added civil engineering projects that  
17 could be implemented here in California. I think CalTrans  
18 has ample opportunity in the number of rural counties in  
19 the northern part of the State where you don't have a lot  
20 of markets outside of a one kiln. Certainly you could  
21 take advantage of that.

22           So there are opportunities still in both -- and  
23 in particular, in your less-populated areas.

24           COMMITTEE MEMBER EATON: And the other question  
25 or comment that I have is for clarification.

1           So is the RMA supporting, much like the Canadians  
2 do, where they put their subsidy at the really tail end of  
3 the process? Because I heard you mention that you were  
4 not in favor of placing any money on the front end, either  
5 collection or processing. So what's left of the box --  
6 and I just want to get some clarification since we're  
7 going on Thursday.

8           MR. BLUMENTHAL: Of course.

9           We as an industry and as an association do not  
10 support the idea of price supports at any point in time.  
11 We think that they are a short-term fix and create  
12 long-term problems.

13           If, however, there is money to be given, we would  
14 suggest that the more efficient place to place that money  
15 would be at the back end, at the end-user level; once  
16 again going back to the idea this is a demand pool  
17 industry as opposed to a supply side.

18           COMMITTEE MEMBER EATON: And that any release of  
19 funds would have to have certification that there actually  
20 was an end use there --

21           MR. BLUMENTHAL: Well, not so much with the  
22 process. I think it's more with the manufacturers of the  
23 end-use product. For example, if you want to get fuel, it  
24 would be the actual end user. If it was for civil  
25 engineering, it would be for the DOT or whoever would

1 actually use the material in that project. If it's for  
2 ground rubber, it would be for the manufacturer of the  
3 product that uses the rubber, not to the processor  
4 themselves.

5 COMMITTEE MEMBER EATON: Thank you for --

6 MR. BLUMENTHAL: And just a point of  
7 clarification. In B.C. the money does not go the end -- I  
8 don't believe money goes to the end user. But we still  
9 don't support the B.C. program. But that is Canada.  
10 That's the Rubber Association of Canada that handles those  
11 issues. We hear in the lower 48 -- they have a belief  
12 that they are an independent country and don't like us  
13 telling them what they should be doing. And we try not to  
14 on too many times.

15 CHAIRPERSON JONES: I'm going to acknowledge Mr.  
16 Paparian in a second. But just to follow up on what Mr.  
17 Eaton was saying.

18 We put our money -- a lot of our money into  
19 schools to let them pay for playgrounds, rubberized mats,  
20 those types of things. We spend an awful lot of money at  
21 that end, which really drives the market from the  
22 standpoint that there's dollars available. And then  
23 whoever's the smartest guy out there gets the business.  
24 And to me that seems like it doesn't distort the  
25 marketplace.

1           MR. BLUMENTHAL: To a point -- yes, I would  
2 absolutely agree that that is not a direct subsidy to the  
3 processor. However, if and when that grant money goes  
4 away, all those markets go away as well. The markets will  
5 be there as long as the State is willing to foot the bill.  
6 If and when that ability to fund these types of grants to  
7 the schools or to the counties ends, their demand for this  
8 product will end.

9           What we would suggest is to devise a program  
10 where the counties or the schools, in this particular  
11 case, see the benefit of using a ground cover, for  
12 example, made from tire rubber. Do a demonstration  
13 project. And answer their questions about how safe it  
14 is -- and there's ample information out there about how  
15 safe it is -- about the cost benefit, about the reduced  
16 injuries that that can occur and which can be documented;  
17 you show them that they can do this on their own. And If  
18 you get them to do it on their own and they bid this out  
19 in a competitive manner, you accomplish the same goal, but  
20 without the dependence on that grant. Because our fear --  
21 and it's not just here in California -- our fear is that  
22 when that grant goes away, when that dries up, then the  
23 demand will dry up.

24           We've seen this in Florida. Florida used to do  
25 the same thing. A lot of their money went for these types

1 of grants. And when the grant program ended, so did the  
2 demand for ground rubber because they said, "Well, it's  
3 more expensive and we have all these questions. It was  
4 nice when we got the grant from the state. But without  
5 the grant, we'll just buy what we've been buying before,"  
6 even though, for example, let's say it's wood, that they  
7 have to replace it every other year or it's not as safe.  
8 There's just no -- there's no continuation of the  
9 marketing of that product.

10 CHAIRPERSON JONES: Thank you.

11 Mr. Paparian.

12 And then we've got a couple of speakers.

13 COMMITTEE MEMBER PAPARIAN: Several questions.

14 Mr. Blumenthal, you mentioned you're going to  
15 Oregon on Thursday.

16 Apparently back in March, in your meeting on  
17 March 22nd, you told the Oregon folks that the California  
18 program is not well focused. I saw a transcript of that  
19 meeting.

20 Would you care to elaborate? I mean that some of  
21 the staff and the Board might disagree on how well focused  
22 we are. But why aren't we well focused?

23 MR. BLUMENTHAL: Not well focused was meant in  
24 the sense that there have been no secondary projects, no  
25 follow-up projects. That there's been grant money to look

1 at virtually everything. A lot of grant money has gone  
2 out. For example, once upon a time you even looked at  
3 tire pyrolysis. There's been no follow-up study for that.  
4 You know, you've done air emission studies, but there's  
5 been no follow-up for that. You give out grants for  
6 playground materials, but there's been no follow-up study  
7 to look at the effectiveness. In other words, to get  
8 people off of being used to getting the money from the  
9 State.

10           It seems that there's enough money to go around  
11 to cover everything once. And then if it's a good program  
12 and people like it, you continue with that program that  
13 people like, but there's been no follow-up studies,  
14 there's been no way to demonstrate the effectiveness of  
15 the tire-generated material in the marketplace.

16           So it goes back to one of my earlier fears in  
17 that when the grants go away, the -- will go away. It's a  
18 fear, like I said, not just here in California. But any  
19 place that has a grant program that will subsidize the  
20 marketplace does not instill any kind of urgency from the  
21 end-user, from the potential purchaser to buy the rubber  
22 product on their own, whether it's asphalt or it's  
23 playground material. And that's my concern, is that  
24 there's enough to go around to cover every question at  
25 least once, but it's the continuation, it's the --

1 COMMITTEE MEMBER PAPARIAN: How would we do that?  
2 What would you suggest? I mean one of the -- let me tell  
3 you one of the things that I've been suggesting is that  
4 perhaps we get some -- identify a university in  
5 California, for example, to help us with program  
6 evaluation and taking a look at some of the things --

7 MR. BLUMENTHAL: That's one of the things we'd  
8 like to be involved with as well, along with whoever --  
9 How do you do it? You go back and look at where your  
10 grants have gone. You look at what the impact of --

11 COMMITTEE MEMBER PAPARIAN: You're talking about  
12 program evaluating?

13 MR. BLUMENTHAL: Yeah, program evaluation.  
14 That's the question I believe I should -- I need to  
15 answer.

16 COMMITTEE MEMBER PAPARIAN: Okay. I got a couple  
17 questions for some of your member companies. I think we  
18 got the picture on that.

19 MR. BLUMENTHAL: And then when I'm finished and  
20 sit down, you can pick any company that you want.

21 But basically you go back and do a review and  
22 then do the secondary studies. And we can go into greater  
23 detail later on.

24 COMMITTEE MEMBER PAPARIAN: Great.

25 I think it was Mr. Cooper from Michelin.



1 MR. COOPER: Sir.

2 COMMITTEE MEMBER PAPARIAN: You've got -- in your  
3 2001 annual report there was mention of the energy  
4 benefits of using green tires. That was something that  
5 was specifically called out in your 2001 annual report.

6 MR. COOPER: Yes, sir. That's what I was talking  
7 about earlier when I was mentioning the low-rolling  
8 resistance tires, the tires with the silica content in the  
9 tread, yes, sir.

10 COMMITTEE MEMBER PAPARIAN: If I wanted to go out  
11 and by these green tires, either as an individual or, say,  
12 the State of California wanted to buy these greener tires,  
13 how would we identify those greener tires?

14 MR. COOPER: We, have a tire called the energy  
15 tire, for example. We have a tire called the X-1. Those  
16 tires are -- contain the silica material in the tread.  
17 And when we advertise them, we advertise them as having a  
18 low-rolling resistance.

19 In terms of having a list of those tires,  
20 certainly we'd be glad to provide you a list. And I'm  
21 sure all of our member companies that also use the silica  
22 tread material would be glad to provide a list of tires  
23 that contain that.

24 Not all of the tires do because -- primarily  
25 because the -- it's a cost issue. And you have to be able

1 to sell that additional cost to the consumer. And that  
2 obviously is a problem. When most of the people -- when  
3 they go to buy a tire, they say, "How much does it cost?"  
4 And that's the primary consideration in tire purchases.

5           So right now we're trying to push the concept of  
6 low-rolling resistance. We're working with the automobile  
7 manufacturers, as all of the member companies are, in  
8 trying to do this. But it all come backs, generally, to a  
9 cost issue.

10           COMMITTEE MEMBER PAPARIAN: Okay. And then in  
11 terms of recycled content, my understanding is Michelin  
12 uses some recycled content in some of their tires.

13           MR. COOPER: That's correct.

14           COMMITTEE MEMBER PAPARIAN: Can you give me a  
15 range or -- well, they're probably zero to some number,  
16 right?

17           MR. COOPER: Yeah, it's zero to about ten percent  
18 in -- but the ones with ten-percent content are very  
19 limited. We had an experimental program with Ford, where  
20 we put recycled content in the tires on certain Windstar  
21 applications. But they decided not to continue that  
22 program, and so we use recycled content in these tire at a  
23 variety of different end-uses. But there's no specific  
24 tire that is loaded up, shall we say, with the recycled  
25 content.

1 COMMITTEE MEMBER PAPARIAN: Okay. But even at  
2 those percentages, if I wanted to go and buy a tire with  
3 recycled content, say, the State of California wanted to  
4 buy tires with recycled content, how would we figure out  
5 which of your tires had recycled content?

6 MR. COOPER: You would have to ask the company.  
7 Same with all the rest of the member companies, you would  
8 have to go back to the marketing people and ask that  
9 question.

10 COMMITTEE MEMBER PAPARIAN: Are the companies  
11 prepared to reveal that type of information about recycled  
12 content in the varies product line?

13 MR. COOPER: I would think so. I would imagine  
14 so. We certainly would. I feel comfortable that the rest  
15 of the companies would as well.

16 COMMITTEE MEMBER PAPARIAN: Okay. That's very  
17 helpful. Thank you.

18 MR. COOPER: Yes, sir.

19 COMMITTEE MEMBER PAPARIAN: I had a question for  
20 the gentleman from Goodyear.

21 MR. PYNOWSKI: Yes, sir.

22 COMMITTEE MEMBER PAPARIAN: A few years -- about  
23 three years back your company touted a patent -- you had  
24 some publicity about a patent for a devulcanization  
25 process?

1 MR. PYNOWSKI: Oh, yes.

2 COMMITTEE MEMBER PAPARIAN: Can you elaborate --  
3 you know, has that panned out or has it failed or -- that  
4 processor, or is it still a possibility?

5 MR. PYNOWSKI: Just hasn't been economically  
6 viable. And it hasn't developed past a -- I won't even  
7 call it pilot scale -- but bench scale. In other words,  
8 you know, working in the laboratory to be able to properly  
9 devulcanize the rubber. We have found some good  
10 properties to be able to reuse that material. But the  
11 time it takes and the expense far outstrips the current  
12 raw materials. So that we have not been able to find  
13 anyone to take it to the next step of being pilot scale,  
14 then make it an economically viable business.

15 COMMITTEE MEMBER PAPARIAN: Okay. One of the  
16 other things the company talks about is product  
17 stewardship, which is also a priority for the Board. In  
18 fact if the company's here, Goodyear seemed to be the one  
19 that touted product stewardship on top of that, fourteen  
20 thousand one efforts. In your product stewardship  
21 efforts, does recycled content play into your pursuit of  
22 product stewardship?

23 MR. PYNOWSKI: Well, we have pursued both here in  
24 the states and in Europe a recycled content. Like  
25 Michelin had stated, varying percentages and depending on

1 the tire, but it includes the steel that goes into the  
2 steel beads and steel belts. There is a certain  
3 percentage of recycled material there because steel is  
4 quite commonly recycled.

5           The butyl rubber or, I guess it would be,  
6 halogenated compounds, could be chlorobutyl rubber or  
7 halobutyl rubber that's used to make that inner liner.  
8 Sort of replaces the tube of the tire. There was a sample  
9 going around that was sort of sliced and cut. That  
10 material has got a very high percentage of recycled  
11 material because the butyl rubber is a unique rubber into  
12 itself. A tire is made up of many different types of  
13 rubbers. But that one is just a single type of rubber, so  
14 that one's easier to recycle. Now, we don't get that from  
15 tires because it's difficult to separate that thin layer  
16 out. But when we cure a tire in a curing press under heat  
17 and pressure, there is some components of that machine  
18 that is made out of butyl rubber, and those are all  
19 recycled. All of our factories recycle that material.

20           And then, as I said, we do have some tire-derived  
21 material that's ground very finely and put back into the  
22 tires at various percentages.

23           COMMITTEE MEMBER PAPARIAN: Mr. Cooper suggested  
24 if we wanted to find out which tires had which recycled  
25 content --

1 MR. PYNOWSKI: Yeah, as well as the silica in the  
2 treads, they'd have greater fuel economy or lower --  
3 rolling resistance, yes.

4 COMMITTEE MEMBER PAPARIAN: Okay. But Goodyear  
5 would be prepared to let us know which ones, say, have  
6 recycled content and which ones don't, percentages?

7 MR. PYNOWSKI: Yes.

8 COMMITTEE MEMBER PAPARIAN: Great.

9 Thank you very much.

10 CHAIRPERSON JONES: All right. We've got a  
11 couple of speaker.

12 Joyce Eden with the West Valley Citizens Air  
13 Watch.

14 MS. EDEN: Hi. Thank you very much.

15 My name is Joyce Eden. I'm with West Valley  
16 Citizens Air Watch. We are a citizen grassroots group who  
17 have been working on this issue since late 1995 when the  
18 Hanson cement kiln did a test burn of tire-derived fuel  
19 without notifying the community.

20 Since then we've done major amount research into  
21 the issue of the air emissions from tire-derived fuel, in  
22 particular compared to coal; and the many possibilities  
23 for source reduction and recycling.

24 I'll try to be brief today. And a lot of things  
25 were brought up here which -- some of which did not go

1 unchallenged. But we feel that the solution to waste  
2 tires is before us, and it's in the Public Resource Code,  
3 that the State of California already has source reduction  
4 to recycling and landfill or a transformation at the  
5 bottom of the priorities.

6           We do not see a lot or perhaps any source  
7 reduction going on. But we see that now the Integrated  
8 Waste Management Board is looking into the longevity of  
9 tires, and we really appreciate that. We feel that -- our  
10 proposal has been that all new tires on -- all tires on  
11 new cars sold in the State of California be made to either  
12 last the life of the car or be rated at 100 to 200 hundred  
13 thousand miles. That in itself would be a major reduction  
14 in source.

15           It's been talked about recycled content of tires.  
16 I went to one of the California Integrated Waste  
17 Management Board tire programs that they had. And someone  
18 from Michelin at that point spoke, two or three years ago,  
19 talked about the five-percent tire -- scrap tire use in  
20 the new tires on Ford Windstars. At that time they tested  
21 ten percent and basically came up with that they were just  
22 as safe and just as good. So I'm actually curious to  
23 know, and maybe someone from the Board will find out, why  
24 apparently Ford has dropped that and what has gone on  
25 there.

1           That's a really important thing.

2           True recycling, as has been mentioned here, is  
3 not transformation. Burning is not recycling. The  
4 California Code is very clear on what recycling is -- PRC  
5 40180. Rubberized asphalt concrete, going into the  
6 recycling examples, that is what we feel is one of the  
7 major ways to deal with tires. I was actually quite  
8 surprised to see that, according to one of the tire  
9 company people or Michael Blumenthal -- I'm not sure which  
10 one -- said that the rack is down in California. And I  
11 wonder -- yes, is that true?

12          Okay. I'm very surprised to hear that because in  
13 fact a road right near where I live was recently -- well,  
14 probably last year had a rack put on it, and it's  
15 marvelous. And, as I'm sure you're aware, it uses only  
16 two inches of material as opposed to four inches. Lasts,  
17 Lord knows, how many years. There's places in Arizona  
18 where it's lasted for 20 years. Doesn't get the pot  
19 holes, it's much easier to repair. A higher cost on the  
20 front end, but saves huge amounts of money for communities  
21 in not such a long run. So I know you have the rack  
22 center in southern California. I think -- do you have one  
23 now in northern California? I see there's two. We  
24 applaud that. And I would like to hear, you know, why --  
25 what's going on that there's a reduction in that.



1 Obviously we all know that there's a huge industry in the  
2 normal usual form of roadways that has lobbied against the  
3 increase in rack. But I hope we can overcome that. I did  
4 a calculation a couple years ago, which I don't have with  
5 me, taking the number of roads in California. And just by  
6 that alone all the -- in the per mile numbers of used  
7 tires that are used in rack, that would take care of the  
8 30 million tires generated in California per year. That  
9 alone would take care of it. And there's many other uses,  
10 as you are well aware of.

11           The emissions issue. There has been assertions  
12 today that the NOX -- this has always been one of the  
13 assertions about using rubberized asphalt concrete -- I'm  
14 sorry -- using TDF is that the NOX will go down. In fact,  
15 we have the figures for the test burn in the Hanson, which  
16 used to be Kaiser Cement Factory. Our group has -- with  
17 people who are trained in this, has in the past gone over  
18 the emissions -- the actual emissions test data from  
19 Kaiser, which was touted as one of the best, if not the  
20 best, test. And it's clear there that the NOX went way  
21 up, including many other emissions. It is not safer or  
22 better to do TDF. And the comparisons of TDF versus  
23 coal -- and I don't have copies of this, but I will give  
24 these to the members of the Board another day or mail them  
25 in. When you compare the amount of emissions from --

1 which is what they did at the Hanson Cement Plant --  
2 burning coal and then adding the tire-derived fuel, huge  
3 increases of emissions. Hexavalent Chromium, the Erin  
4 Brockovich toxin, I mean that went up orders of magnitude,  
5 orders of -- huge orders of magnitude. The NOX went up,  
6 the dioxins went up, the mercury went up, the PM10 and 2.5  
7 went way up, the PAH's went way up. This is not a  
8 reduction. This is not a benefit.

9           We're really greatly concerned about the press by  
10 the Rubber Manufacturers Association to increase the  
11 tire-derived fuel burning in California, and other places,  
12 but we're focused now obviously on California.

13           You know let's think about if we increased that,  
14 what would happen? Will we ever be able to get rid of it?  
15 I think not. There will be an entrenched industry for  
16 burning coal, burning TDF in cement kilns, in paper mills  
17 and Lord knows where else. Whereas this Board is working  
18 towards and mandated to do source reduction and true  
19 recycling as priorities.

20           And the question of landfill? Well, that is  
21 certainly not ideal, and we don't want tires in the  
22 landfill. Of course we all know they have to be chipped  
23 in California before they're put in the fill. That in  
24 terms of social, health, citizen -- benefits to the  
25 society or detriments to the society it's certainly better

1 to landfill than it is to burn them and put those tires  
2 and all their components into the air which we have to  
3 breathe, which then fall in the water and which form  
4 significant amounts of, for instance, mercury, which we --  
5 you know, we're trying to reduce from the water.

6           So this is very serious. And, you know, we're on  
7 the cusp of are we going to increase TDF or are we going  
8 to decrease TDF? The goal should be decrease it and phase  
9 it out. Certainly not increase it. That will interfere  
10 with all the beneficial uses of a rubberized asphalt --  
11 excuse me -- of TDF.

12           The components of tires -- the rubber in tires is  
13 not real rubber. It's a long chain molecular product that  
14 takes huge amounts of energy to produce in the first  
15 place. When it's burned, whether it's called  
16 transformation or energy recovery, or whatever kind of  
17 euphemism is used, it loses seven percent -- in other  
18 words it takes seven times -- it takes seven times more  
19 energy to produce a tire in the first place than is  
20 so-called recovered from burning the tires.

21           This is not a solution. This is an industry that  
22 of course is motivated to use this because it's a cheap  
23 form of fuel.

24           On top of it, there's a proposal now before the  
25 Board in draft form to actually directly subsidize tire

1 burning to the tune of \$0.10 per tire. This is  
2 ridiculous.

3 CHAIRPERSON JONES: That is not a proposal.  
4 That's a report that was done. We haven't even taken a  
5 vote if we're going to even take any of it on value.

6 MS. EDEN: Okay, good. Well, I'm glad to hear  
7 that. I'm glad to hear that. But I see it in the report,  
8 and I don't know -- you know, it wasn't addressed by the  
9 representatives here. You know, I could -- you know, I  
10 could conceive of the fact that they may, you know, lobby  
11 on that. And I'd be interested to know if they're for or  
12 against that.

13 Obviously the tire -- the cement kilns don't need  
14 that in order to burn tires, to be motivated --

15 CHAIRPERSON JONES: I don't believe in any  
16 subsidies, so -- you know.

17 MS. EDEN: Okay. Well, good. I'm glad to hear  
18 that. But you never rest. With or without a subsidy  
19 there is an economic motivation to burn the tires in  
20 cement kilns because of the fuel, the reduction in the  
21 cost of fuel. However, there's an increase in the cost to  
22 the community and the health risks.

23 Okay. I had -- I wanted --

24 COMMITTEE MEMBER ROBERTI: I agree with almost  
25 everything you say. I'm not totally sure that given the

1 right area, the proper area -- if that's the right word --  
2 of burning is necessarily more damaging to health than  
3 burying the tires. I've heard when I first came on the  
4 Board evidence that almost every landfill that has a  
5 number of tires is burning, except it's burning down deep  
6 in the ground.

7           And we've had since I've been on the Board two  
8 major tire fires, both I believe in the Central Valley,  
9 where the toxics in the air and the water certainly  
10 commanded our attention and certainly even more so  
11 commanded yours. And I grant that wasn't a burial, but it  
12 was an accumulation before --

13           MS. EDEN: Yeah, one at least was --

14           COMMITTEE MEMBER ROBERTI: -- before somebody got  
15 to the point of maybe just burning from the beginning. So  
16 it's an unhappy and unhealthy choice. But as between  
17 burial and burning, I don't think it's quite as simple as  
18 to say that burial is best in all cases. In fact my own  
19 feelings are, is that given the right location -- and  
20 that's a terrible word to use, but I can't think of  
21 anybody better right now -- quite often burning would be  
22 better than burying.

23           MS. EDEN: Well, burning --

24           COMMITTEE MEMBER ROBERTI: Recycling is obviously  
25 the preferable, and source reduction is along those lines

1 as the preferable way to go.

2 MS. EDEN: Yeah. Well, I think that the  
3 emissions from burning in, you know, a plan such as a  
4 cement kiln are greater than people really realize. And  
5 our eyes were opened when we saw the results from the  
6 actual test burn. That's what got us started. Because we  
7 were horrified that this was going to be raining down on  
8 our communities. And we also have worked to help other  
9 communities not have to undergo this. So I think that,  
10 you know, a lot of times this is awfully -- you know  
11 there's been a lot of dismisses in this of, you know, the  
12 emotional citizens who don't want tires burned in their  
13 community. Well, for good reason. You know, we have  
14 people with backgrounds in science and, et cetera, who  
15 have looked at this information. And the -- a lot of the  
16 test burns and so on that have been referred have not been  
17 the kind of test burns that was done at Kaiser, which  
18 actually did compare an actual cold burn with an actual  
19 TDF burn. So, you know, that gives you a better idea and,  
20 you know, you can believe that they were doing everything  
21 possible to keep down the emissions from the tire-derived  
22 fuel burn.

23 But, anyway --

24 CHAIRPERSON JONES: Okay. Thanks, Ms. --

25 MS. EDEN: -- I want to thank you very much.

1 CHAIRPERSON JONES: We appreciate it.

2 MS. EDEN: And, please, please, tire burning is  
3 not recycling. And I know that you all want to truly  
4 recycle.

5 CHAIRPERSON JONES: Thank you.

6 Dr. Donna Cotner.

7 And we do have to move along. We've still got 12  
8 items to do. So let's move.

9 DR. COTNER: Okay. Thanks again for allowing us  
10 to speak.

11 I just have a quick question -- couple of  
12 questions. Who among you are interested in the management  
13 of used tires? I assume everyone.

14 Now, who among you lives within ten miles of a  
15 coal-fired electrical cogeneration plant or a cement kiln.

16 And there are four of us here.

17 And it's no coincidence that we are here today.  
18 We drove up from Cupertino to attend this meeting because  
19 we live near the Hanson Cement Plant. We work close to  
20 the plant, our children go to school down the street from  
21 the Hanson Cement Plant. Any decision that the Integrated  
22 Waste Management Board makes or has made regarding burning  
23 tires and cement kilns directly affects us and our  
24 children, are friends and our neighbors. It affects the  
25 health, the well being, and quality of life of the entire

1 Santa Clara Valley.

2 Today Hanson Cement, burning nothing but coal, is  
3 the single largest point-source polluter in our valley.  
4 Obviously it's in our best interests to decrease the  
5 pollution that we must bear.

6 So we are passionately involved in the  
7 tire-burning issue. And that's what's motivated us back  
8 in 1995 when we first learned of the trial --

9 COMMITTEE MEMBER ROBERTI: It's the single most  
10 what?

11 DR. COTNER: The single largest point-source  
12 polluter. From a single point --

13 COMMITTEE MEMBER ROBERTI: More than all the  
14 E-waste that's generated in the San Clara Valley?

15 DR. COTNER: The E-waste?

16 COMMITTEE MEMBER ROBERTI: E-waste.

17 DR. COTNER: We're talking about air pollution.  
18 There's probably a lot of E-waste too.

19 COMMITTEE MEMBER ROBERTI: But on the Waste  
20 Board, just to talk about waste, we talk generally. And I  
21 totally appreciate your sensitivity, especially when your  
22 kids are involved. But after having seen what the -- the  
23 documentary the Board put together on E-waste, I would  
24 suggest with those of you who are on top of the Santa  
25 Clara Valley with some influence there, speak to the



1 tremendous toxicity that is created by electronic waste.  
2 It is often -- and I'm just saying this because you've  
3 punctuated -- you've, you know -- something that's I'm  
4 concerned about is, you know, it's always the other guy  
5 who's -- and this goes from me to -- it's always the other  
6 guys who's polluting the world. And what we're doing is  
7 healthy and necessary. The worst waste generated in  
8 California after seeing our documentary is right out of  
9 your valley, and it's not rubber, as bad as that is.

10 DR. COTNER: I agree, I agree.

11 COMMITTEE MEMBER ROBERTI: Okay. I got to make  
12 my point. And I do agree.

13 DR. COTNER: I'm also a member of the silicon  
14 Valley Toxics Coalition, which you may be aware of. In  
15 fact, they are the ones that first alerted the community  
16 to the tire-burning situation.

17 So, yeah, we're definitely working in many  
18 fronts.

19 So -- yes, when we learned back in 1995 from the  
20 Silicon Valley Toxics Coalition that the tire burning had  
21 gone on at Kaiser Cement -- it was a trial burn -- and the  
22 community was not informed, they were not consulted or  
23 anything in this, the emotions got us involved. But the  
24 science kept us going. As we examined the reports, which  
25 were generated from the Kaiser test burning, we found

1 serious problems with the design and execution of the  
2 trial burn, the analysis of the data and even the  
3 mathematics. Our examination of Kaiser's figures even led  
4 to the Bay Area Air Quality Management District to revise  
5 their emissions data upward from Kaiser's initial figures.

6           So the bottom line here, and the point that I'm  
7 making, is that the Integrated Waste Management Board  
8 really needs to actively seek out input and cooperation  
9 from non-governmental organizations, citizens groups like  
10 West Valley Citizens Air Watch. We have on file with the  
11 Bay Area Air Quality Management Districts petitions of  
12 people categorically opposed to the tire burning. And  
13 these are signed by over 8,000 citizens.

14           So we urge you to let them have a voice. And  
15 we'll be glad to speak for them.

16           Thank you.

17           CHAIRPERSON JONES: Thank you.

18           All right. Our last speaker, Dr. Barry Takallou.

19           And then it's going to be my intention to give  
20 our reporter a couple minute break. And then we will take  
21 up the rest of the items quickly, quickly.

22           Go ahead, Mr. Takallou.

23           DR. TAKALLOU: Members of the Board, I'm Barry  
24 Takallou from CRM Company. I just want to make a quick  
25 comment.

1           On the screen it says fewer asphalt rubber  
2 contracts in 2002. As a person who is very much involved  
3 in asphalt rubber business, I think this is really too  
4 soon to judge 2002. There are contracts in works is going  
5 to come in specifications. Still is month of August. I  
6 don't think asphalt rubber contracts overall is lower.  
7 The entire construction asphalt contracting conventional  
8 is also lower. So the percentage-wise we are not  
9 dropping.

10           One of the problems we are facing in 2002, of --  
11 majority of cities and counties are using CalTrans'  
12 specification. And in CalTrans' specification you can  
13 bring rubber anywhere from around the world. We are  
14 getting quite a bit of ample imports from heavily  
15 subsidized crumb rubber from out of country, from Canada  
16 and other locations. That's why -- I just want to make a  
17 correction. If there's an ample supply of crumb rubber in  
18 California right now, yeah, to some extent rack contracts  
19 are lower.

20           But the other reason, the fully subsidized crumb  
21 rubber is heading our market. There were two huge asphalt  
22 rubber projects just vetted last week, one in southern  
23 California which had about one and a half million pounds  
24 of crumb rubber; and one in northern California, two  
25 million pounds of rubber. And there are seven producers

1 in State of California. And we all, seven of us, got beat  
2 up by Canadian fully subsidized crumb rubber. So I just  
3 wanted to let you know, there is seven producers here who  
4 couldn't compete. And --

5 CHAIRPERSON JONES: Okay. What are the two  
6 cities? Because we give grants out for an awful lot of  
7 things. I'd sure like to know what -- I want to know, and  
8 I think this Committee wants to know, when they go out and  
9 buy Canadian rubber on projects that we're not funding,  
10 but then go out and buy California rubber on the ones that  
11 we are funding, because that's going to creates an issue  
12 for me.

13 DR. TAKALLOU: These are not cities. These are  
14 both -- were CalTrans projects. And right now in our  
15 State Senate we have AB 546, which would require CalTrans  
16 use U.S. -- crumb rubber from U.S. tires. So we have  
17 ample good competition, good supply here. However, you  
18 know, this is an unlevel playing field when one country's  
19 subsidize it heavily, in the range of 70 percent of the  
20 value of the product, we don't no where the hit. It is a  
21 moving target for us.

22 Thank you very much.

23 CHAIRPERSON JONES: All right. Questions?

24 COMMITTEE MEMBER PAPARIAN: Not for Mr. Takallou.

25 Follow-up though.

1 CHAIRPERSON JONES: Go ahead, Mr. Paparian.

2 COMMITTEE MEMBER PAPARIAN: Thank you.

3 I mean one area that we talked about today that  
4 I'm very exited about and I think offers a real  
5 opportunity to work together with the industry and the  
6 Waste Board is the recycled content in tires. We heard  
7 that many companies are using recycled -- maybe all  
8 companies are using recycled content to some degree, and  
9 that they are prepared to let us know which tires have  
10 recycled content at what percentages.

11 We actually have in the room someone who's  
12 involved in issues involving State procurement overall for  
13 all State agencies. And I think he's been listening  
14 intently to some of this discussion. And I think what --  
15 where we could work together is seeing what we could do to  
16 get these recycled content tires on to our State vehicles  
17 and on to consumer vehicles in California, and then look  
18 at creative ways to take the next step, which would be  
19 getting California crumb into the recycled content of  
20 these tires.

21 I think there are some ways to do that. I'm sure  
22 Mr. Takallou and others would love to get their California  
23 crumb into tires. It's a question of getting our crumb  
24 from California to the manufacturing facilities. But as  
25 Mr. Blumenthal and I discussed, I think there may be some

1 creative ways to do that. And it could be a very  
2 important partnership that we could develop with the  
3 industry in utilizing new tires as a market for our crumb  
4 from California.

5 CHAIRPERSON JONES: Thank you.

6 Mr. Eaton.

7 COMMITTEE MEMBER EATON: Thank you, Mr. Jones,  
8 for having this discussion. It's been most informative.  
9 But I'd also like to ask to either Mr. Leary or Ms.  
10 Gildart or I guess Ms. Wexler, that the moneys that have  
11 been handed out over the last year, that's all come from  
12 the new tire money, hasn't it?

13 SUPERVISING WASTE MANAGEMENT ENGINEER GILDART:

14 Correct.

15 COMMITTEE MEMBER EATON: So that, Mr. Blumenthal,  
16 the examples that you used -- and I, you know, beg to  
17 differ because I was part of the negotiation -- the same  
18 examples that we waste the money or we are not focused on  
19 these grants with pyrolysis, I believe was from the old  
20 tire money, not Martha Escutia's bill. So that money has  
21 not even been out on the street a year. So when we talk  
22 about focus, let's talk about the money that you raise the  
23 argument with when we're negotiating the bill, pre-873.  
24 You will get no disagreement from me that some of that  
25 money was misplaced or should not have been put there.

1 But any of the subsequent money with 873, this Board and  
2 at least the members of this Committee at least thus far  
3 have utilized that money I think pretty well to the fact  
4 they're trying to be -- scrutinize that it doesn't get  
5 wasted in a manner not consistent.

6 Furthermore -- and what I'm -- you know, and  
7 appreciate your partnership and I hope you carry through  
8 it. But not one time was any grant handed out or a grant  
9 program that any one of your member companies came here to  
10 tell us that we were not being focused or did the right  
11 thing or we should have been going here or there.

12 So hopefully it's not just words, but you will at  
13 least be part of the meetings when we hand out these  
14 grants if we are doing something not -- even though maybe  
15 well intentioned, not going to produce the right result.  
16 I'm happy to do that. I'm that open. But I don't want to  
17 have some of that recycled argument being used on the new  
18 money. And I think that that's, you know, not who you  
19 are. And I hope in future that you will, you know, look  
20 at it from a standpoint that the new money really has to  
21 be evaluated on what's going out with the new money in the  
22 programs and the grants that we're handing out. And if it  
23 is misdirected or misplaced, then you ought to be here to  
24 help us with it, as your offer went.

25 And I think with that, you know, we can try and

1 get to the bottom of it. And also I do -- you and I  
2 probably differ. You know, even though I'm from Chicago,  
3 I don't necessarily believe in the Chicago school of  
4 economics. And I know some of the companies you represent  
5 talk about the laissez faire economic model. But I know  
6 in their actions they are not fully supportive of laissez  
7 faire economics when it comes to their own pocket book.  
8 As such, if we want to develop markets, we have to  
9 sometimes prime the pump. We are not the World Bank.

10           However, when it comes to rubberized asphalt, you  
11 and your member companies ought to be there with us with  
12 CalTrans, helping us so we don't have to hand out grant  
13 money.

14           And perhaps one of the things that could be  
15 suggested here as a first step is to -- with rubberized  
16 asphalt, does it help fuel efficiency? Do any of you  
17 gentlemen know that?

18           Does it help with friction, to reduce that?

19           I mean those are the kinds of things, if you want  
20 to talk about focus, we should be talking about, instead  
21 of throwing, you know, darts back and forth. But that's  
22 really what we're looking at and that's what I hope the  
23 money would go for.

24           Thank you, Mr. Jones.

25           COMMITTEE MEMBER ROBERTI: Mr. Chairman.



1 CHAIRPERSON JONES: Thanks, Mr. Eaton.

2 Senator.

3 COMMITTEE MEMBER ROBERTI: Mr. Eaton pushed my  
4 button. So -- I absolutely agree with him, but I --

5 COMMITTEE MEMBER EATON: It's taken me how long?

6 COMMITTEE MEMBER ROBERTI: Correctly, correctly.

7 But I mean I did sit through the presentations --  
8 properly made, and I respect people for their opinions --  
9 on the market, in effect, dictating what we should do.  
10 The fact of the matter is -- after having served one term  
11 on this Board, the fact of the matter is, except in some  
12 isolated cases, we can't say that it is economically more  
13 feasible to use recycled product; except in some isolated  
14 cases, we cannot say that that product is more durable.  
15 Then why in the world are we here? We're here because  
16 that product is the result of years of recognizing we have  
17 a social and communal responsibility to produce it to  
18 maintain our resources.

19 And that is the one thing the market never takes  
20 into consideration, out of necessity.

21 So my parting shot to my colleagues is that  
22 hopefully, and for those of us that feel this way, to keep  
23 the faith that we're here because we recognize we have to  
24 have some command and control. It has nothing to do with  
25 the market. It has to do with command and control. To

1 maintain our social responsibility to protect our  
2 resources, to protect the health of the public. And  
3 that's why we engage in recycling and source reduction.

4           It has nothing to do with the economics. When it  
5 does, that's so much the better. And we try to make the  
6 economics as good as possible. And in some cases, it's  
7 the best. It has nothing to do with durability, although  
8 we try to make it the best. And to the extent that we  
9 could make the product more durable, so much the better.

10           It has to do with our social and environmental  
11 responsibility, which the market does not take into  
12 consideration.

13           And so raising the flag of criticizing the  
14 Chicago school of economics -- which I totally agree with  
15 Mr. Eaton on. I think sometimes we have to refresh why  
16 we're here. And it's not economics, it's not the market,  
17 and it's not even a durable product, as important as those  
18 things are. It's conservation. And you need a  
19 command-and-control board. Otherwise, nobody's going to  
20 do it.

21           CHAIRPERSON JONES: Thank you, Senator.

22           I want to thank the tire manufacturers. I want  
23 to thank Mr. Blumenthal. I challenged him in -- I don't  
24 know where the heck we were -- Palm Springs or somewhere,  
25 and I think again in Arizona, that I wanted the tire

1 manufacturers at the table with this Board. Mr. Eaton's  
2 right -- 876, he was a key player in that negotiation. I  
3 had a little bit to do with it, as did all the other  
4 members. And -- but we were trying real hard.

5           We've got a major problem in this state, and had  
6 one. And I think you're right, we do have to do  
7 follow-ups on a lot of this stuff. I think Mr. Eaton's  
8 absolutely right with trying to be able to make  
9 determinations if -- we already know rubberized asphalt is  
10 a sound enhancer -- noise enhancer, a whole lot of things.  
11 We've got to start accumulating the data and doing the  
12 back -- the next steps of our grants to figure out how we  
13 can walk out and tell this picture the right way. And we  
14 need the rubber manufacturers at the table with us. And  
15 we need them here all the time. I don't want this to be  
16 one time for the -- what was this thing, check the air,  
17 check the -- I mean whatever the one is that you're going  
18 to work with the State, don't make this the one time and  
19 mark us "Done."

20           We appreciate this. It invoked a lot of good  
21 discussion. We have different views on this Board.  
22 That's probably why we're as productive as we are. I  
23 appreciate that you took the time to come and talk to us.

24           We're going to take a ten-minute break. We're  
25 going to be back here at 5:30. I want to tell the

1 members -- or ask the members -- we have some items that  
2 we could run through if everybody's back at 5:30, and  
3 we'll hit them, bing-bang-boom. Have your staff ready  
4 present. Okay. We're not taking any prisoners.

5 Thank you.

6 (Thereupon a brief recess was taken.)

7 CHAIRPERSON JONES: As Mr. Paparian walks up to  
8 the dais, we'll call this back to order.

9 Mr. Eaton, any ex partes?

10 COMMITTEE MEMBER EATON: I just said hello, a  
11 meet and greet to the various members who testified on the  
12 previous matter of the rubber manufacturers. That  
13 included proponents and opponents of the tire-derived  
14 fuel, as well as promoters and supporters of a different  
15 viewpoint. Far too many, I think, to list.

16 CHAIRPERSON JONES: Mr. Paparian.

17 COMMITTEE MEMBER PAPARIAN: Same thing.  
18 Primarily Mr. Blumenthal and the doctor from San Jose.

19 CHAIRPERSON JONES: Okay. As did I. I spoke to  
20 both sides of the issue.

21 All right. We are on item I.

22 DEPUTY DIRECTOR WILLD-WAGNER: Item I. This is a  
23 consideration of the grant awards for the Household  
24 Hazardous Waste Grant Program.

25 And Pat McDermott of the Used-oil Program will

1 make the presentation.

2 USED-OIL AND HOUSEHOLD HAZARDOUS WASTE GRANT

3 PROGRAM MANAGER McDERMOTT: Good afternoon Chairman Jones  
4 and Committee Members. I'm Pat McDermott, Grant Manager  
5 of the Used-Oil and Household Hazardous Waste Grant  
6 Program, and present for your consideration the Household  
7 Hazardous Waste Grants for Fiscal Year 2002-2003.

8 If it's all right with the Committee, I will  
9 dispense with the background information on the grant  
10 program and go straight to the information on the  
11 applications received in the sake of time. Okay?

12 CHAIRPERSON JONES: Okay.

13 USED-OIL AND HOUSEHOLD HAZARDOUS WASTE GRANT

14 PROGRAM MANAGER McDERMOTT: Fifty-three applications were  
15 received requesting over \$9.3 million. Thirty-four  
16 applications received passing scores, with 15 being  
17 recommended for the \$3 million in available funds. The  
18 remaining 19 passing applications requested over \$3.8  
19 million for which funds are not available.

20 Seventy-three percent of the applications  
21 recommended for funding have an E-waste or U-waste  
22 component. Eighty-seven percent of the applications  
23 recommended for award did not receive an HHW grant in the  
24 last two funding cycles.

25 As a point of interest, 79 percent of the

1 applications that received a passing score but for which  
2 there were no funds available had an E-waste component.  
3 It's clear from this that local jurisdictions are in great  
4 need of assistance in dealing with E-waste.

5 A list of all the applicants with passing scores  
6 is included with your packet as Attachment 2.

7 Eighteen applications received a score of less  
8 than 77 points, which put them below passing; and one  
9 application was withdrawn. The majority of the  
10 non-passing applications ranked in the fair-to-poor range  
11 for two or more of the scoring criteria for either  
12 evidence of a recycled content purchasing policy,  
13 completeness or need.

14 Following the Board meeting on August 20 and 21  
15 staff will be working directly with applicants that did  
16 not receive a passing score and who have indicated an  
17 interest in improving future grant applications.

18 Several of the Board's grant programs have  
19 enacted a geographic distribution provision for their  
20 grants, awarding approximately 61 percent of available  
21 funding to projects submitted by southern California  
22 applicants and 39 percent to projects submitted by  
23 northern California applicants. However, criteria  
24 approved by the Board in January did not require a  
25 geographic split for this grant cycle. Nevertheless 59

1 percent of the funds being recommended for award today are  
2 for southern California applications and 41 percent are  
3 for northern California applications.

4           At the November 13 and 14, 2001, Board meeting,  
5 the Board approved a process for handling applications  
6 with tied scores that exceed the available funds. This  
7 process is to bring the ties to the Board to make the  
8 determination which application, if any, shall receive an  
9 award or portion of an award. We have just such a tie for  
10 the Committee's consideration.

11           San Joaquin County and Amador County have tied  
12 scores. Together the two applications are asking for  
13 \$449,310 in grant funding. There is \$260,932.12 remaining  
14 to be distributed.

15           San Joaquin county requested \$300,000 for a  
16 regional application, representing seven cities in the  
17 unincorporated county area. They are requesting funds to  
18 conduct seven collection events throughout the county of  
19 CRT's and U-waste and to conduct a public education  
20 campaign.

21           Amador County requested \$149,310 to improve and  
22 expand its permanent HHW facility to include the  
23 collection of E-waste and U-waste and to conduct a public  
24 education campaign.

25           Staff is recommending that the remaining funds of

1 \$260,932.12 be split equally and each applicant receive  
2 \$130466.06. This will allow San Joaquin County to conduct  
3 the seven collection events and Amador County to expand  
4 their facility to receive E-waste and U-waste.

5 I'd like to recommend approval of Resolution  
6 2002-417 and the award of 15 grants totaling \$3 million.  
7 However, we need the Committee's determination as to how  
8 you would like to settle the tied scores. The resolution  
9 currently lists the two applicants as receiving half of  
10 the funds remaining.

11 At this point I'll be glad to answer any  
12 questions.

13 CHAIRPERSON JONES: Any questions? Because we do  
14 have one speaker.

15 COMMITTEE MEMBER EATON: Have we in the past -- I  
16 can't recall -- had any money returned to us as unable to  
17 be spent or not being spent?

18 USED-OIL AND HOUSEHOLD HAZARDOUS WASTE GRANT  
19 PROGRAM MANAGER McDERMOTT: On the HHW grants  
20 specifically?

21 I don't know for a fact. I believe we may have.

22 DEPUTY DIRECTOR WILLD-WAGNER: We have at  
23 different times, Mr. Eaton, depending on if they were  
24 unable to expend it all end of the time, this money goes  
25 away in three years. So occasionally they don't expend



1 all the funds.

2 COMMITTEE MEMBER EATON: Correct.

3 And the reason why I asked is because if for some  
4 reason we were going to reallocate some of this money to  
5 those two jurisdictions that have tied to make up -- that  
6 they should have first crack at any reallocation monies if  
7 we split it. That's all I was trying to get at, that --

8 DEPUTY DIRECTOR WILLD-WAGNER: The problem with  
9 reallocation money is if they have the full three years to  
10 spend it, then that --

11 COMMITTEE MEMBER EATON: That's what I thought.  
12 It's not the year cycle. So that's the problem in stuff  
13 like that.

14 CHAIRPERSON JONES: We have one speaker.

15 Shirley Johnson-Wright from Lassen Regional Solid  
16 Waste Authority.

17 MS. JOHNSON-WRIGHT: Thank you. I'll be very  
18 brief.

19 I've been here too with you. But it was  
20 knowledgeable for me to be here, and I might be coming to  
21 some of them.

22 I am Shirley Johnson-Wright from Lassen Regional  
23 Solid Waste Management Authority. And I'm the program  
24 coordinator. And I would just like to ask you to -- in  
25 these household hazardous waste grants, to give us grants

1 for the rural isolated counties; for instance, Plumas,  
2 Lassen, Sierra, Modoc, on the right side of the Sierra  
3 Mountains. There are no facilities whatsoever. In the  
4 winter we can't get to anything. So what we're just  
5 asking that you give us some grants to let us -- in fact,  
6 we're talking now about setting up a permanent facility in  
7 Lassen County for those four counties. But we just need a  
8 little extra I'm not asking for any favors. I'm just  
9 saying that we really need them up there. And with the  
10 closure of all of our sites, at some of them a million a  
11 year, we're really in need of household hazardous waste  
12 money.

13           And we're just asking for more consideration. We  
14 have over 4,000 square miles in our county; 37,000 people,  
15 17,000 of that is in the city of Susanville, 7,000 in the  
16 prisons, and then the other 10,000 are throughout Lassen  
17 County, which takes three and a half hours to get to the  
18 other end of the county. So we are a rural isolated  
19 county. And we're just asking for that.

20           We thank you for any past grants. We have gotten  
21 quite a few and we're really glad about that. And we're  
22 glad that your personnel have been very cooperative. And  
23 in fact I'm going to be down here right after -- the day  
24 after your next meeting to see how I can improve. Because  
25 obviously we can't afford a grant writer. So the program

1 coordinator is the manager, the kick-butt person. I was a  
2 drill sergeant in the army, so I'm pretty good at that  
3 kicking butt.

4 Okay. Thank you very much.

5 CHAIRPERSON JONES: Thank you.

6 Mr. Paparian.

7 COMMITTEE MEMBER PAPARIAN: I'll move adoption of  
8 Resolution 2002-417.

9 CHAIRPERSON JONES: And would that be with  
10 splitting the funding to the last two applicants equally?

11 COMMITTEE MEMBER PAPARIAN: That's correct and  
12 that's what's in the resolution.

13 CHAIRPERSON JONES: Perfect.

14 Okay. That's what you needed?

15 COMMITTEE MEMBER EATON: Second.

16 CHAIRPERSON JONES: We've got a motion by Mr.  
17 Paparian, a second by Mr. Eaton.

18 Could you call the role.

19 SECRETARY BAKULICH: Eaton?

20 COMMITTEE MEMBER EATON: Aye.

21 SECRETARY BAKULICH: Paparian?

22 COMMITTEE MEMBER PAPARIAN: Aye.

23 SECRETARY BAKULICH: Roberti?

24 COMMITTEE MEMBER ROBERTI: Aye.

25 SECRETARY BAKULICH: Jones?

1 CHAIRPERSON JONES: Aye.

2 Fiscal consent?

3 COMMITTEE MEMBER PAPARIAN: Yes.

4 CHAIRPERSON JONES: Or consensus?

5 Thank you.

6 Senator Roberti, any ex partes?

7 COMMITTEE MEMBER ROBERTI: No ex partes.

8 CHAIRPERSON JONES: Thank you.

9 All right. Next item.

10 DEPUTY DIRECTOR WILLD-WAGNER: Item J is the  
11 consideration of the contractor for the comprehensive  
12 assessment of the Used Oil/Household Hazardous Waste  
13 Program.

14 And Kristin Yee will be making this presentation.

15 MS. YEE: This will be really quick.

16 Good afternoon, Chairperson Jones and Committee  
17 Members of the Special Waste and Waste Prevention Market  
18 Development Committee.

19 I'm here to present, as Shirley said, the agenda  
20 item for consideration of contractor for the comprehensive  
21 assessment of the Used Oil/Household Hazardous Waste  
22 Program Contract, Concept 0-06.

23 The goal of this contract is to provide a  
24 comprehensive overview and assessment of the program's  
25 accomplishments and impacts. The result will streamline,

1 hopefully, the oil grant administrative process, provide  
2 future options that could be implemented to increase our  
3 used-oil recycling rate, and also to help us in developing  
4 our five-year plan.

5           The scope of work that you have attached to your  
6 agenda item, basically outlines all the work that's going  
7 to be performed by the contractor.

8           And since I've presented the scope of work, we've  
9 contacted over 30 different parties within the state  
10 system to see who was interested in performing this  
11 comprehensive assessment. Three expressed interest in the  
12 study. And we interviewed all three of the different  
13 parties, and we selected California Polytech State  
14 University, Cal Poly. They were selected because they  
15 created a really strong team and performed this  
16 assessment. And also they have experience in assessing  
17 programs as well as technical knowledge.

18           So this contract a for a total \$200,000.

19           And we would ask and recommend that the Committee  
20 takes the selected contractor, Cal Poly, to the Board  
21 meeting on August 20th-21st and approve Resolution  
22 2002-416.

23           COMMITTEE MEMBER PAPARIAN: Mr. Chairman, if  
24 there's no questions, I'll move Resolution 2002-416.

25           CHAIRPERSON JONES: Okay. Which Cal Poly?

1 MS. YEE: Cal Poly San Luis Obispo.

2 CHAIRPERSON JONES: Okay.

3 COMMITTEE MEMBER PAPARIAN: All right. With the  
4 addition of Cal Poly San Luis Obispo in the blank.

5 CHAIRPERSON JONES: Thank you, Mr. Eaton.

6 COMMITTEE MEMBER EATON: Well, you know, could  
7 have gone to, you know -- who knows, could have gone to  
8 Palmer Institute.

9 I'll second it.

10 CHAIRPERSON JONES: All right. We have a motion  
11 by Mr. Paparian, a second by Mr. Eaton.

12 Substitute the previous roll?

13 On fiscal consent -- or consensus?

14 Okay. So ordered.

15 Thank you.

16 DEPUTY DIRECTOR WILLD-WAGNER: Item K is  
17 consideration of a modified evaluation process and a  
18 priority categories for the Waste Tire Clean-up Grant  
19 Program. This item did come to you from before. And --  
20 recommends this.

21 Diane Nordstrom will make the presentation.

22 MS. NORDSTROM: Good afternoon, Mr. Chairman and  
23 Members of the Committee.

24 I'm Diane Nordstrom from the Special Waste  
25 Division. And the item before you is the consideration of

1 the modified evaluation process and priority ranking  
2 criteria for the Local Government Waste Tire Clean-up  
3 Grant program for Fiscal Years 2002-2003 and 2003-2004.

4 The Local Government Waste Tire Clean-up Grant  
5 program provides grant funding to local jurisdictions to  
6 clean up illegally dumped tires. This will be the 6th  
7 year that the Board has provided funding for this program.  
8 And the Board has allocated one million dollars for this  
9 fiscal year.

10 Even though the amount of the grant awards has  
11 increased in last year, the grant program funds remain  
12 underutilized.

13 To increase participation in the grant program  
14 Board staff is recommending that the application and  
15 evaluation process be modified by eliminating the scoring  
16 criteria used by other grant programs at the Board.  
17 Instead, grant applications will be evaluated and ranked  
18 based on the environmental threat of an applicant's tire  
19 clean-up project.

20 Staff proposed changes in the evaluation process  
21 are as follows:

22 A review panel comprised of three program staff  
23 will review each application to determine applicant  
24 eligibility and rank each project or site using the  
25 priority ranking criteria which is shown in Attachment 1.

1           The ranking criteria comprises of three different  
2 ranks based on the environmental threat of a site.

3           Sites that are considered a serious threat due to  
4 their proximity to populated or environmentally sensitive  
5 areas or consist of 25,000 tires or more will receive Rank  
6 1 and will be rewarded first.

7           Sites that are considered a moderate threat or  
8 consist of more than 1,000 tires will receive a Rank 2 and  
9 will be awarded next.

10          Sites that are considered a potential threat or  
11 consist of less than 1,000 tires will receive a Rank 3 and  
12 be the last to be awarded.

13          If an applicant has more than one site that is  
14 included in the application, then each site will be ranked  
15 individually. If more eligible applications are received  
16 and funds are available, then Board staff may recommend  
17 funding the higher priority sites; or for multiple site  
18 applications, partial funding of an applicant request will  
19 be recommended.

20          In addition, if several sites are ranked in the  
21 lowest priority, then the site with the most tires will be  
22 recommended for funding first.

23          Approval of this item would also direct staff to  
24 prepare a notice of funding availability and mail it to  
25 interested local governments.



1           Staff recommends the Committee adopt Resolution  
2 2002-425 and place this item on consent.

3           This concludes my presentation.

4           CHAIRPERSON JONES: Mr. Eaton.

5           COMMITTEE MEMBER EATON: My understanding is that  
6 in addition to changing criteria, that we're also going to  
7 change who can apply and not apply -- that regional area  
8 can apply; that is correct?

9           SUPERVISING WASTE MANAGEMENT ENGINEER GILDART:  
10          That's included --

11          COMMITTEE MEMBER EATON: Where is that in here?

12          MS. NORDSTROM: That's already been done. We've  
13 been allowing regional jurisdictions to --

14          SUPERVISING WASTE MANAGEMENT ENGINEER GILDART:  
15          It says cities or counties may submit a regional  
16 application with authorization from other cities and/or  
17 counties. The regional lead jurisdiction must be  
18 designated for regional programs to act on behalf of all  
19 participating jurisdictions. That's in the analysis  
20 section there on Page 19-2.

21          MS. NORDSTROM: That's currently being done. And  
22 it's just a clarification.

23          CHAIRPERSON JONES: Okay. And the site  
24 description kind of mirrors 2136 by threat. But --

25          SUPERVISING WASTE MANAGEMENT ENGINEER GILDART:

1           And it's also in the tire program regulations.  
2   So we have precedent for that description.

3           CHAIRPERSON JONES:   Okay.   And then we're going  
4   to reevaluate this think in a year just to see how we're  
5   doing, if we're getting participation, things like that?

6           SUPERVISING WASTE MANAGEMENT ENGINEER GILDART:

7           If you wish we could bring back a report on the  
8   results.   We were asking for approval of funding on two  
9   years to try and speed up the process.   But we'd be more  
10   than happy to come back with a report on what kind of  
11   participation we got, and then a decision could be made.

12          CHAIRPERSON JONES:   Okay.

13          COMMITTEE MEMBER EATON:   Yeah, one year.   Because  
14   if it just doesn't work, then we're going to have to go  
15   back and do something else.

16          CHAIRPERSON JONES:   We'll have to change it,  
17   yeah.

18          So it could be 2002-3 and not 2002-3, 3-4, if we  
19   went from --

20          SUPERVISING WASTE MANAGEMENT ENGINEER GILDART:

21          If that is the Committee's wish.

22          CHAIRPERSON JONES:   -- so we'd have time?

23          Okay.

24          CHAIRPERSON JONES:   Okay.   I'll move adoption of  
25   Resolution 2002-425, consideration of a modified

1 evaluation process and priority ranking criteria nor Local  
2 Government Waste Tire Clean-up Programs for Fiscal Year  
3 2002-2003. And we will reevaluate it at the end of that  
4 year.

5 COMMITTEE MEMBER PAPARIAN: Second.

6 CHAIRPERSON JONES: Substitute the previous roll.

7 So ordered.

8 Fiscal consensus?

9 CHIEF COUNSEL TOBIAS: The Executive Director is  
10 saying -- I think he was going to add that it's not fiscal  
11 consent.

12 CHAIRPERSON JONES: Or consensus.

13 EXECUTIVE DIRECTOR LEARY: It is a fiscal item.

14 I'm sorry. It is a grant item. I'm sorry.

15 SUPERVISING WASTE MANAGEMENT ENGINEER GILDART.

16 It's not an award.

17 EXECUTIVE DIRECTOR LEARY: It's not an award, but  
18 it is --

19 CHAIRPERSON JONES: Okay. So I'm saying a  
20 million dollars, split the million two.

21 CHIEF COUNSEL TOBIAS: What I was going to add is  
22 that you might consider whether this is appropriate for  
23 consent, since you have changed the staff recommendation;  
24 which I think's a good change and I don't have a problem  
25 with it, but just --

1 CHAIRPERSON JONES: -- not consent.

2 CHIEF COUNSEL TOBIAS: Okay. We're just  
3 trying --

4 CHAIRPERSON JONES: So you want to just hear the  
5 whole item --

6 COMMITTEE MEMBER PAPARIAN: Committee consensus.

7 CHAIRPERSON JONES: -- whatever you want.

8 Committee consensus, and you can bring forward --

9 CHIEF COUNSEL TOBIAS: Committee Consensus would  
10 be good, but not on the consent calendar.

11 CHAIRPERSON JONES: Right, right. Yeah, none of  
12 these two. All the fiscal consensus need a little  
13 quick (sound) -- right? Right.

14 Okay. Mr. Paparian has to leave.

15

16 COMMITTEE MEMBER EATON: Could the court reporter  
17 read back that (sound). I don't quite get what that --

18 CHAIRPERSON JONES: Mr. Paparian has to leave.

19 I have a question.

20 On Item Number 20 -- on Item Number L, 30.

21 Okay. Mr. Dier, go ahead.

22 Mr. Paparian I think has to leave, but --

23 COMMITTEE MEMBER PAPARIAN: My apologies. I've  
24 got a child care issue.

25 CHAIRPERSON JONES: But you don't have any

1 problem -- we're not going to vote for you, but you don't  
2 have any issues with these things?

3 COMMITTEE MEMBER PAPARIAN: The last two items  
4 I'm fine with.

5 CHAIRPERSON JONES: Cool. Thank you.

6 So, if we have a 3-0 we're going to put it on  
7 consensus.

8 COMMITTEE MEMBER PAPARIAN: Great.

9 CHAIRPERSON JONES: Thank you.

10 Go ahead, Mr. Dier.

11 DEPUTY DIRECTOR WILLD-WAGNER: Go right ahead.

12 MR. DIER: Mr. Chairman, Don Dier with the  
13 Special Waste Division.

14 Waste Tire Enforcement grants are one of the key  
15 aspects of the Board's enforcement program, one of four  
16 major aspects:

17 The first being -- the primary being the Board's  
18 own enforcement and permitting program.

19 The second being the California Highway Patrol  
20 contract and work that we're doing.

21 And the third being the California District  
22 Attorneys' Association.

23 Waste Tire Enforcement grants are intended to  
24 fund local agencies, cities and counties, special  
25 districts to provide additional eyes and ears for us at

1 the local level to conduct inspection and the first level  
2 of enforcement actions. They have traditionally  
3 historically been under-subscribed.

4 We are recommending in this item that we change  
5 to a noncompetitive streamlined process. This is  
6 specifically provided for in SB 876, and is reinforced in  
7 the Board's five-year plan.

8 We are asking the Committee and the Board to  
9 approve this switch. It would entail a transition from a  
10 two-year grant period to a 12-month grant period. This  
11 initial cycle would be little a over 12 months. But then  
12 beginning in next fiscal year we would go to a 12-month  
13 grant. It would provide a stable source of funds.

14 Staff is recommending that after this initial  
15 notice of funds available, for this cycle, those who are  
16 successful and are funded could return each year without  
17 making applications, but merely indicating an interest to  
18 continue funding. Staff would be reviewing quarterly and  
19 annual reports and making a recommendation to the Board  
20 whether to continue the funding. That would be coming to  
21 the Board in the spring of each year.

22 This is responding to feedback that we've gotten  
23 from grant recipients and those who have chose not to  
24 apply because they found the process cumbersome and  
25 because they didn't view that there was a stable source of

1 funding because they would have to make competitive  
2 application every year. So we're addressing both what was  
3 envisioned in statute in the plan and also the feedback  
4 from the grantees themselves.

5 There's much more detail in the agenda item, but  
6 I think that is the essence of the staff recommendation,  
7 is to go with the noncompetitive streamlined process. We  
8 would ask your support For Resolution 2002-457.

9 CHAIRPERSON JONES: Mr. Eaton.

10 COMMITTEE MEMBER EATON: Now, how would this come  
11 back to the Board? Is there going to be an agenda item by  
12 which we would then take a look and you would submit--  
13 it's not just going to be an Executive Director report  
14 that, you know, these guys have applied again. I know  
15 you're going to review the jurisdictions. But is it going  
16 to come back before the Board?

17 MR. DIER: Yes. This initial --

18 COMMITTEE MEMBER EATON: It will be an agenda  
19 item?

20 MR. DIER: This initial cycle will be a regular  
21 NOFA --

22 COMMITTEE MEMBER EATON: Right. But when they  
23 come back and they apply again saying that "we want to  
24 continue this" --

25 MR. DIER: As we structured it, they would not

1 apply. They would indicate that they would like to  
2 continue. We would evaluate their performance. And then  
3 bring the item to the Board as an action to continue that  
4 funding.

5 BOARD MEMBER EATON: Okay. And then the only  
6 other item as you and I discussed when you briefed us --  
7 and I appreciate it -- was how are we going to coordinate  
8 this with regard to the CDAA, the California District  
9 Attorneys' Association, monies? Because in some cases  
10 when they file an enforcement action and clean-up, that's  
11 what this should go for. And I would hope that we could  
12 have either Legal Department, which is going to work with  
13 CDAA to somehow get that because -- like what was it,  
14 Vince's or Chuck's in Ventura last month or something,  
15 that we had that situation where who pays and whatever.  
16 This would be a perfect way where we could utilize some of  
17 these funds or encourage with the D.A.'s to have them  
18 work -- you know, to get the clean-up monies. Because  
19 they say, "Okay, why are we going to enforce it? We have  
20 no money to clean it up if the guy doesn't want to clean  
21 it up." This would be a perfect opportunity for that  
22 jurisdiction to go and apply or seek those funds.

23 CHIEF COUNSEL TOBIAS: Well, we have quarterly  
24 reports that will come in from CDAA. So I think, you  
25 know, the way we're trying to organize this, we have at



1 minimum a monthly meeting with Legal and the tire program  
2 where we're basically going overall all these sites and  
3 we're looking at, you know, everything from not only the  
4 initial visits that the inspectors are making, but right  
5 through to all the enforcement. So I think actually what  
6 this will do is all fit together and make for a pretty  
7 tight enforcement program. We'll be figuring out where  
8 the appropriate action is, you know, should it be  
9 something taken by a county, should it be something done  
10 by CDAA, or should it be something done by --

11 COMMITTEE MEMBER EATON: And there's a training  
12 component to this, if I'm not mistaken, as well.

13 MR. DIER: There will be a training component,  
14 yes, because -- what I failed to mention was that this  
15 funding is up to \$4 million this year under the five-year  
16 plan, from \$2 million last year. And next year and each  
17 year thereafter under the current plan it's \$6 million.  
18 That's a significant amount of resources that are going to  
19 be deployed at the local level. So there's going to be a  
20 lot of training required to make sure that they are  
21 adequately prepared to carry out those duties.

22 But I'm fully committed to getting that \$4  
23 million subscribed despite the past undersubscription. We  
24 have initiated a very aggressive marketing campaign to  
25 reach out to those communities and cities and counties

1 that we know either have tire problems or a lot of tire  
2 generation. Because you didn't get the presentation on  
3 the manifest system today, but a good deal of this effort  
4 will be involved in enforcing those new manifest  
5 requirements also.

6 CHAIRPERSON JONES: You're kind of managing the  
7 contract with CDAA too, right? I mean you have some  
8 oversight?

9 MR. DIER: Well, I'm involved. It's actually  
10 managed out of our Legal Office.

11 CHAIRPERSON JONES: So you can make sure that  
12 this is getting coordinated, like Mr. Eaton said?

13 MR. DIER: Yes.

14 CHAIRPERSON JONES: And I want to thank Mr. Eaton  
15 for bringing these issues forward at the last meeting and  
16 staff for listening to the Committee and really I think  
17 producing a document that's going to give us a lot tools,  
18 which were envisioned when we did AB 876.

19 So congratulations to all you guys.

20 And with that I'm going to look to Mr. Eaton.

21 COMMITTEE MEMBER EATON: I'm going to adopt  
22 Resolution 2002-457, which is not the weapon of choice.

23 CHAIRPERSON JONES: Okay. And Senator?

24 COMMITTEE MEMBER ROBERTI: Second.

25 CHAIRPERSON JONES: Okay. We got a motion by Mr.

1 Eaton, a second by Mr. Senator Roberti.

2 Call the roll, please.

3 SECRETARY BAKULICH: Eaton?

4 COMMITTEE MEMBER EATON: Aye.

5 SECRETARY BAKULICH: Roberti?

6 COMMITTEE MEMBER ROBERTI: Aye.

7 SECRETARY BAKULICH: Jones?

8 CHAIRPERSON JONES: Aye.

9 Okay. Fiscal consensus:

10 DEPUTY DIRECTOR WILLD-WAGNER: Well, this isn't  
11 actually a fiscal item, so it could just be 3-0 consent,  
12 to go to the consent agenda.

13 CHAIRPERSON JONES: Okay. Okay, Senator?

14 All right. Put it on consent, 3-0.

15 DEPUTY DIRECTOR WILLD-WAGNER: Okay. And Item M  
16 will be presented by Albert Johnson, rather than  
17 repeating.

18 MR. JOHNSON: Good afternoon, Chairman Jones and  
19 Members of the Committee.

20 Today I have for your consideration a scope of  
21 work for Environmental and Engineering Services Contract  
22 for the Tracy tire fire site.

23 Historically there's seven million tires stored  
24 at the Royster illegal waste tire facility. The Board had  
25 pursued legal action for several years against Mr.

1 Royster. August 1998 the tires caught fire, burned for a  
2 period of over two years until December 2000, when the  
3 Board put the fire out.

4 Previous Board actions include, in January of  
5 2002 the Board approved a scope of work for a remediation  
6 contractor to clean up the site. The second contract for  
7 the Tracy tire fire site would provide the engineering  
8 services and the two contractors could work in conjunction  
9 together on the project.

10 We do not anticipate any other State agencies  
11 have the ability to do this work. However, we will check  
12 with them and make sure that they can't before we put the  
13 RFQ out on the street.

14 There are several reasons why we think this is a  
15 good idea. First of all, it should save the State money  
16 because we won't have to pay markup to the remediation  
17 contractor for these services that will be provided. The  
18 contractor will work directly for us.

19 At the Westley site we learned that reports that  
20 are required for us in DTSC can run in excess of half a  
21 million dollars. So a five-percent markup on half a  
22 million dollars is a significant amount of money.

23 Additionally, we know at this time that based on  
24 the preliminary work that's been done in the site geology  
25 and the amount of time that the fire burned, that there's

1 the potential for some real significant environmental  
2 problems, especially groundwater contamination. This  
3 contractor will quantify the levels of contamination  
4 overall in the groundwater and the soil and determine its  
5 extent.

6           Additionally, this contractor will also identify  
7 long-term remediation options, such as if there is a  
8 significant groundwater problem that will require hospital  
9 treatment in the future, the options to do with that  
10 problem would be identified by this contractor. However,  
11 this contract will not include implementation of any type  
12 of remediation. The Board staff would come back to the  
13 Board with the options available and details on the cost  
14 and the amount of time it may take to remedy like a  
15 groundwater problem. And the Board will have the  
16 opportunity to vote on that or decide what they would like  
17 to do at that time.

18           That pretty much concludes my presentation on  
19 this scope of work.

20           Board staff recommend that this item be placed on  
21 the consent calendar. It's Resolution 2002-426.

22           Be happy to answer any questions.

23           CHAIRPERSON JONES: Questions?

24           I have one.

25           MR. JOHNSON: Sure.

1           CHAIRPERSON JONES: Albert, on the plans and  
2 reports, we show our first saying as design, grading -- is  
3 this existing or is that final? Because later down you  
4 have "prepare as-built drawings." So, I'm  
5 wondering if --

6           MR. JOHNSON: Well, I think the site plans --  
7 that would be a plan up front on how to deal with, you  
8 know, grading the site. I mean usually on all these  
9 projects, when we're done they'll have an as-built plan  
10 that will show the final configurations.

11          CHAIRPERSON JONES: All right. So you're going  
12 to look at what you're hoping to end up with as final  
13 grade, stuff like that, and then based on how much  
14 remediation, how much removal of material that's hazardous  
15 or whatever would determine what that fill pattern would  
16 be? I mean we're not going to bring stuff in to this  
17 site --

18          MR. JOHNSON: I don't think so, no. We're  
19 dealing with a hole anyway. If it gets a little deeper,  
20 you know, I don't think that's that big of a deal.

21          CHAIRPERSON JONES: Okay. That's cool.

22                I just got a little nervous when I saw that in  
23 that category -- in that lineup, because I thought that  
24 could be scary.

25          COMMITTEE MEMBER ROBERTI: Mr. Chairman, I move

1 Resolution 2002-426.

2 CHAIRPERSON JONES: Thank you, Senator.

3 And I will second it.

4 Substitute the previous roll?

5 And put it on consent?

6 Thank you.

7 DEPUTY DIRECTOR WILLD-WAGNER: And our final item

8 for the day, Item N, will be presented by Stacey

9 Patenaude. It's another scope of work.

10 MS. PATENAUDE: Good evening --

11 CHAIRPERSON JONES: Yes, it is.

12 MS. PATENAUDE: -- Chairman Jones and Members of

13 the Board. My name is Stacey Patenaude. I work in the

14 Special Waste Division in the Tire Remediation Section

15 here at the Board.

16 This item is the consideration of a scope of work

17 for the oversight of the civil engineering applications

18 using Waste Tires/Incentives Contract.

19 This item proposes that the Integrated Waste

20 Management Board approve a scope of work for the oversight

21 of civil engineering applications using Waste Tires and

22 Incentives Contract for Fiscal Year 2002-2003.

23 Under this contract Board staff will direct the

24 contractor to continue to supply construction oversight,

25 engineering support and, if necessary, tire shreds for

1 lightweight fills -- lightweight fill and civil  
2 engineering project.

3           This contract is vital to the implementation and  
4 continuing success of the civil engineering application  
5 projects using waste tires.

6           Previous board action was the civil -- was the  
7 oversight and civil engineering applications contract was  
8 awarded in fiscal 2000. And that contract expired May of  
9 this year.

10           I had a brief presentation with pictures, but I  
11 think we'll get by -- do without that one today.

12           Board staff is requesting that this contract be  
13 funded for \$500,000. And staff would like to recommend  
14 that the Committee approve this Resolution 2002-148 and  
15 the proposed scope of work for the oversight of civil  
16 engineering applications using Waste Tires and Incentive  
17 Contract and place this item on consent.

18           CHAIRPERSON JONES: Okay. Stacey, you meant to  
19 say 2002-418?

20           MS. PATENAUE: 2001 -- oh, yes.

21           CHAIRPERSON JONES: 418, not 408.

22           Anyway, just for the record, 418.

23           MS. PATENAUE: Yes. Okay.

24           CHAIRPERSON JONES: Any questions of members?

25           I just want to say something real quick. I don't



1 Dana Humphrey's going to bid on this thing or not. But  
2 the work that you did and that Dana Humphrey and the rest  
3 of the tire people did, for the last three years anyway,  
4 or four years, has been incredible. I mean we have gone  
5 in leaps and bounds on our civil engineering, thanks to  
6 those efforts. So I don't know if he's going to bid it,  
7 but I sure hope we get somebody as good. And I'm not sure  
8 that anybody as good really exists. But --

9 MS. PATENAUDE: This will actually be more of a  
10 construction. They will be our -- you know, everyday  
11 person in the field.

12 CHAIRPERSON JONES: All the construction stuff?

13 MS. PATENAUDE: Yes. They'll work hand with  
14 myself and Dr. Humphrey.

15 CHAIRPERSON JONES: All right. Well, the  
16 compliments still hold.

17 All right. Mr. Eaton, question?

18 BOARD MEMBER EATON: No. I'm just kind of  
19 interested in the analysis. I want to point out that  
20 they -- now, we are told that there's only nine million  
21 tires are not recycled each year. So --

22 CHAIRPERSON JONES: It changes.

23 BOARD MEMBER EATON: It changes by item or by  
24 presentation? I mean, which is it? This is 70 percent --

25 CHAIRPERSON JONES: That was RMA that made that

1 presentation.

2 COMMITTEE MEMBER EATON: Right. But they said  
3 they based it on our staff's statistics. I just want to  
4 kind of get to the bottom of it. I noticed that. We can  
5 move this item. But I just wanted to know, you know --  
6 it's a moving target.

7 CHAIRPERSON JONES: As it has been for as long as  
8 I've been here. It always kind of scared me when we were  
9 doing the legislation, one day it was 30, the next day it  
10 was 22, and the next day it was 14.

11 If we'd have stayed the whole week, we wouldn't  
12 have ever had a tire.

13 All right. Who's making this motion?

14 COMMITTEE MEMBER EATON: You are.

15 CHAIRPERSON JONES: I am.

16 I'll move Resolution 2002-418.

17 COMMITTEE MEMBER ROBERTI: Second.

18 CHAIRPERSON JONES: We got a motion by Jones, a  
19 second by Roberti.

20 Substitute the previous roll?

21 So ordered.

22 On consent?

23 And so ordered.

24 All right. Thank you.

25 Now, we do have a notice in here for one public

1 comment.

2 And we welcome you up to the dais, Dr. Mike --  
3 uh-huh.

4 DR. MNATSAKANYAN: -- Mnatsakanyan.

5 CHAIRPERSON JONES: Uh-huh, it's easy for you to  
6 say.

7 I am going to ask you to make it a bit brief. I  
8 know you've been here all day. But try to hit the points.

9 DR. MNATSAKANYAN: I want to thank you, Mr.  
10 Chairman and Members of the Board.

11 Basically we were -- it was our first time come  
12 coming out here to meet the Integrated Wasted Management  
13 Board. I am with United Recycling Technology. And we are  
14 in the process of implementing new revolutionary recycling  
15 technology that allows us to convert waste tire -- rubber  
16 waste into diesel fuel.

17 This technology is existent. This is a patented  
18 technology by American manufacturer that has been  
19 implemented in Taiwan. There is a facility over there  
20 that processes 10,000 a day. And in that brief report you  
21 will find all the chemicals analysis and also the  
22 environmental emissions in a report and also all the  
23 studies that have been conducted by United Recycling  
24 Technology and the manufacturer.

25 Furthermore, we've done financial analysis. And

1 you will find over there the insert at the end that will  
2 show you briefly what is the breakdown of the product that  
3 are being derived from single tire. We have conducted  
4 tests from an average single tire that weighs 20 pounds.  
5 We are able to recycle exactly 100 percent. The  
6 percentage goes 37.5 percent we receive light liquid  
7 equivalent to Diesel Number 1; 12.5 percent we receive  
8 heavy liquid which is equivalent to Heating Oil Number 4;  
9 8 percent is gaseous fuel, which is retained in  
10 gasification process system; 34 percent is carbon black,  
11 which is used in inks, tires, and other materials; also  
12 2.6 percent zinc oxide; and recycled metal, 5 percent.  
13 100 percent of recycling.

14 And also we have included on one of the columns  
15 the prices of the wholesale values of the products that  
16 can be sold at the market. And we came up with \$6.87 per  
17 tire that we're throwing away every time each tire goes to  
18 landfill.

19 And if we are half as good as we say, we at least  
20 make \$3.40.

21 Basically we want to ask the Board to include us  
22 for your next September 4th Board meeting, to allow us to  
23 make a 10-15 minute presentation of this technology to the  
24 Board and to the State.

25 CHAIRPERSON JONES: Okay. I can't speak for what

1 the Board's going to do. We will probably in the future  
2 have some conversion technology workshops where we could  
3 give you as well as other proponents of different  
4 technologies maybe the opportunity to come forward as a  
5 group and each take some time. But I think if we start  
6 letting each technology or each product line make a  
7 presentation to this Board, we will end up with chaos  
8 because we're not going to be able to endorse any of them.

9 But the information's valuable. And maybe  
10 somewhere down the line a little bit, because we are very  
11 involved in conversion technology. We've got some  
12 legislation, that after this session, depending upon how  
13 that legislation comes through, we're going to be needing  
14 to test some of this conversion technology. And it will  
15 probably be at a time like that that our Chairwoman would  
16 want to have some kind of a workshop on conversion  
17 technology or whatever. And I'm sure you'll be on the  
18 mailing list and invited to speak.

19 But I think as far as coming back to this  
20 Committee just to talk about United Recycling probably is  
21 not completely appropriate. But that's why we let you  
22 talk today.

23 DR. MNATSAKANYAN: All right. Thank you very  
24 much.

25 CHAIRPERSON JONES: Members, thank you for your

1 patience.

2 I think we did a lot of good work today. I'll  
3 tell you, the Milken issue and the tire issues were good.

4 I see a chair in the back. The air conditioning  
5 is out. We're leaving.

6 I do want to thank everybody, thank staff Good  
7 job.

8 We're done.

9 (Thereupon the California Integrated Waste  
10 Management Board, Special Waste and Market  
11 Development Committee adjourned at 6:10  
12 p.m.)

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## 1 CERTIFICATE OF REPORTER

2 I, JAMES F. PETERS, a Certified Shorthand  
3 Reporter of the State of California, and Registered  
4 Professional Reporter, do hereby certify:

5 That I am a disinterested person herein; that the  
6 foregoing California Integrated Waste Management Board,  
7 Special Waste and Market Development Committee meeting was  
8 reported in shorthand by me, James F. Peters, a Certified  
9 Shorthand Reporter of the State of California, and  
10 thereafter transcribed into typewriting.

11 I further certify that I am not of counsel or  
12 attorney for any of the parties to said meeting nor in any  
13 way interested in the outcome of said meeting.

14 IN WITNESS WHEREOF, I have hereunto set my hand  
15 this 1st day of September, 2002.

16  
17  
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21  
22  
23 JAMES F. PETERS, CSR, RPR  
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